

The Entrepreneur between Theory and History Adriano Olivetti, Innovator of the Italian Capitalism

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Abstract

In the economic theory, and in particular in the one based on the construction of mathematical models, entrepreneurs don't find so much place. Their prerogatives and capabilities cannot be properly formalized in quantitative models. Nevertheless, a few economists have widely highlighted the entrepreneur's role as an innovator, which can be incisive at a macroeconomic level as well. This essay aims at emphasizing and reevaluating the legitimacy of Schumpeter's theory. Further, it investigates the historical case of an entrepreneur-innovator, Adriano Olivetti which has characterized the Italian capitalism.

Keywords: Theory of Entrepreneurship, Schumpeter, Olivetti, Economic History, History of Economic Thought

1. The Idea of Entrepreneur in the Economic Theory between Light and Shade

The enterprise undoubtedly constitutes a fundamental institution for the modern economic development, through strategic decisions and choices; it makes it possible to go beyond the bonds imposed by technology and the market. We must observe that in the economic theory, which always dealt with the crucial role of the entrepreneurial activities, it seems there are no theoretical reconstructions explaining in a complete and persuasive way the concept of entrepreneur, to define his function and impact on the developing process in itself. It doesn't mean that economic theory has not delivered any analyses about it; on the contrary. There are plenty of considerations and they have a long tradition, but although the entrepreneur has always been considered a major actor in the events studied by the economist, the formalization of his role is still very imprecise and in some ways incomplete (Baumol, 1968).

The entrepreneur finds it hard to enter into economic theories, because his prerogatives and capabilities, even if they may be taken logically into consideration due to the decisive dynamism conferred to the production process, cannot be properly formalized in models in an essential quantitative manner. Economists, because of their own methodology, try to construct general schemes, whose validity should transcend time and space context; possibly, for this reason they reflect some reluctance to include the entrepreneur, whose variable performances, on the contrary, must be necessarily considered while analysing economic phenomena. The absence of the entrepreneur is even more evident in the neoclassical-marginalist approach, which examines the market mainly in its static dimension. In these theories the market is dominated by the natural tendency to balance between supply and demand, there is no place for uncertainty, thus entrepreneurial initiative is technically classified as a dynamic, disruptive element and, as a result, it is not included in the model but is confined among residual factors.

Though still surrounded by a halo of uncertainty, the entrepreneur concept is all but absent in the economic way of thinking and, in order to see which acceptance it found, a brief digression of the classics of the economic thought is worth (Toninelli, 2006). We remember scholasticism, which developed in thriving pre-Renaissance Italy, for making the first attempts to legitimize the profit intended as remuneration for the risk and randomness of the trading activities which were typical of the economic reality of the time.

It is no accident that people like Benedetto Cotrugli, Paolo da Certaldo, Benedetto Zaccaria or such prominent intellectuals as Coluccio Salutati, Poggio Bracciolini and Leonardo Bruni, who were directly engaged in the economic activity, contributed remarkably to the cultural upgrading secular process of the entrepreneurial logic profit even before the success of the protestant ethics. The first real theorization of the entrepreneur's role was conceived by a Frenchman, Richard Cantillon (1680-1734). He recognized the main characteristic of the entrepreneur, which is the organization of production under the risk originating from arbitrage. So tenants, merchants and manufacturers were regarded as entrepreneurs because they engaged the risk of forecast, were certain about the initial expenditure and had just expectations on the final income (Cantillon, 1755).

The entrepreneur then became a major topic of the physiocrats, who recognized a decisive role of the entrepreneurial class in their interpretation of the economic growth. For example, Nicolas Baudeau (1730-1792), as well as Melchiorre Gioia (1767-1829), reasoned in favour of the entrepreneurs and the logic of profit as a remuneration not only for the risk, but also because of the "improvements", which we could also call innovations (Baudeau, 1776). Jean-Baptist Say (1767-1832), a French economist and industrialist, was the first one who highlighted the managerial role of the entrepreneur by distinguishing it from the capitalist-owner's role. The latter had the task to provide capital to the industry, while the entrepreneur, who had to be endowed with "right-mindedness", discharged his duty of managing and supervising production (Say, 1855).

Before these early definitions about the role played by the entrepreneur, we can't help to observe the silence from the "fathers" of Economics. Adam Smith (1723-1790) for example, though conceptually grasping the difference between the action of getting the capital stock necessary for the industrial activity aimed at the profit on one side and, on the other side, the one of inspection and managing which was paid by salary, didn't differentiate between capitalist and entrepreneur. He traced all back to the indistinct concept of enterprise owner i.e. capitalist (Smith, 1776). David Ricardo also (1772-1823), having known Say's writings well, didn't place particular emphasis on the capitalist-entrepreneur's innovative capacity. In his opinion production and capital investment were an almost automatic process, free from critical choices. The crucial mechanism underlying the economic system and its development was the accumulation of capital, whose genesis was to be found in the profits made by the capitalist regarded as provider and holder of the capital and not as entrepreneur. The entrepreneur's figure – of which no equivalent existed in English vocabulary – entered the tradition of the classical school with John Stuart Mill (1806-1873), who however ended up attributing the entrepreneur its reference of salaried manager, paid with a share from the payroll and not holding an autonomous function (Mill, 1848).

The considerations of Karl Marx appear even more ambiguous (1818-1883). He, though insisting on an autonomous and significant role of the entrepreneur in the productive process, doesn't seem to be particularly interested in taking the matter further of the difference between capitalist and entrepreneur. The philosopher and economist, confines himself to observe that the entrepreneur's gain is, so to speak, a control wage, i.e. higher than one of a common worker, inasmuch as payment of a more complex and self-determined work, without particular underline related to the risk or to the participation in the profit-sharing deriving from the industrial activity (Marx, 1894). By the late 19th century it seemed that the entrepreneur was left out of the economic reasoning forever after the theorizations on the general equilibrium by Leon Walras (1834-1919) and Vilfredo Pareto (1848-1923), who took into consideration only factors of production, land, capital and work.

In a different way Alfred Marshall (1842-1924) started a new area of research, industrial economics, which created the analysis of the partial equilibriums. He ascribes to the entrepreneur a specific role, in particular for small and medium-sized enterprises. It is meant as the role of production organizer, which is paid through a share of the profits, whose relevance is so high that it is considered a fourth factor of production (Marshall, 1977).

2. Role of the Entrepreneur-Innovator in the Cyclical Development of the Economy

An effective exploitation of the entrepreneur's role took place in Germany and Austria thanks to a greater emphasis put on the methodological individualism, which was started by Karl Menger (1902-1985). According to his theory the behaviours of the single agents, be it consumers or entrepreneurs constitute the fundamental object of the economic scientific analysis and macroeconomic variables is not so important. The contributions to the entrepreneur's role by Max Weber (1864-1920) and Werner Sombart (1863-1941), both sociologists, and, above all, by Joseph Alois Schumpeter (1883-1950) materialized on the wake of what was underlined by the methodological individualism.

Weber theorized the ideal type of rational capitalist enterprise, while Sombart very accurately described the capitalist entrepreneur, which was the expression of both spirit of enterprise and hard-working and thrifty bourgeois spirit intended as the engine of the economy. Both of them contributed to the maturation of that cultural environment in which Schumpeter's scientific intuitions took shape. Schumpeter was one of the most eclectic characters of the 20th century. He was a valid sociologist, historian, statistician, mathematician, political scientist, but, above all, an economist whose contribution goes far beyond having formalized the meaning of the entrepreneurial activity. The Austrian economist, in fact, was not interested in situating the entrepreneur's function within the enterprise; on the contrary he examines his role inside the dynamic proceeding of the capitalist system.

The longest-lasting contribution of Schumpeter's thought is indeed his vision of the economic development. It marks a breaking point with regard to the conventional theory, whose analyses had privileged the static nature of the equilibrium condition, which Schumpeter replaced with a more dynamic one, which is in fact more delicate towards discontinuities and long-term changes which characterize the history of capitalism. In this regard fundamental works are *The Theory of Economic Development* (1912), written in Austria, *Business Cycles*, whose publication dates back to 1939, and the better known *Capitalism, Socialism and Democracy*, published in 1942; all of these written at Harvard, where Schumpeter moved in 1932.

All the scientific framework of the Austrian economist rests essentially on the search of the endogenous forces which thrust the capitalist system along a path determined by a cyclical trend. The theory of business cycles, which was conceived by Clement Juglar in 1860 and, chiefly, its statistic current, observes and analyses the fluctuations of a capitalist system, in which expansion periods alternate regularly with depression phases, without managing to establish with certainty if it depends on endogenous or exogenous variables. Schumpeter, who began this theoretical stance, tried to also provide an interpretation of this persistent cyclic nature, by availing himself of the historical approach: the decisive causal relationship would reside indeed in the innovation and the entrepreneur would be the subject "called" to realise it, so as to rise to the role of prime mover of the economic development.

In the common parlance however it is not seldom to incur a misinterpretation, which is important to point out otherwise it could result in a partly misleading reading of Schumpeter's thought, i.e. the fact of considering innovation as a synonym of invention limiting innovation to the mere technological field. For the sake of clarity it is convenient to recall some important passages from the Theory of innovation, which may help us elucidate these points, in order to better define the entrepreneur-innovator's outline, without misunderstanding his role. Schumpeter sets out innovation "as introduction of a new production function. [...] Since, of an economic point of view, production is nothing other than the combination of production services, it is the same thing to state that innovation combines the factors in a new way, or that it consists in setting up new combinations [...]" (Schumpeter, 1977). Therefore, the economist himself explains in the text that innovation is not just when a technological change is implied. Innovation means a new economic combination, which can be a new product, but also a new production process, a new organization form, or still new sources of raw materials and new markets. In the case of a technological innovation, then we need however to distinguish it from the invention. The latter is the discovery in itself, which becomes innovation as soon as it is made economically exploitable altering this way the production landscape.

At this point we can better understand the definition of the schumpeterian entrepreneur as he who carries out the innovations; a definition that may appear imprecise if you consider that Schumpeter himself says: "Nobody ever is an entrepreneur all the time and nobody can ever be only an entrepreneur" (Schumpeter, 1977). The difficulty can be attributed to the type of business and to the historical context in which he operates. Often the entrepreneur can be found among the undertaking managers, but it is not absolutely necessary that he be the "inventor" or have provided the crucial capitals; he can be a manager, a salaried employee, a share parcel owner. What matters is that he is an innovator. The entrepreneur as such will surely face the entrepreneurial risk, which however will be rewarded with the monopoly rent position secured him by innovation. Nevertheless, this rent will be only temporary, first because in the long run it will be imitated by the competition, but also because the initial innovation will encourage further developments, triggering in turn more or less intense phases of innovative activity (innovation cluster). Innovative activity, in its turn, will result in the imbalance of the economic system. According to Schumpeter, the cyclical and fluctuating nature of the capitalist growth process derives from the stimulations set in motion by the first innovation and from imitation-emulation processes implemented by firms.

Hence, we can see a theoretical model emerging, which consists of three central propositions. The first of these affirms that innovation and growth proceed *pari passu*, to such an extent that without innovation the system could not grow and would turn in the circular flow. Secondly, innovation alters the order of production process. The third important assertion finally states that innovation and crisis are as much inseparable because innovation produces “creative distribution” i.e. the continuous modifications of the economic structure. If the innovation flow is regular, creative distribution will produce widespread effect of local instabilities, which become generalized crises when, starting from initial innovation, cluster innovations propagate. It is now abundantly clear how entrepreneur-innovator can be considered as the soul of capitalism and major originator of cyclicity, because in the long run innovation creates instability, likewise rapid growth coincides with a new innovation generated during the last period of crisis.

3. The entrepreneur in the Italian economic history: the case of Adriano Olivetti

This is so far the theory. In any case we must point out that a feedback between theory and history exists, a continual adjustment between hypothesis and historical context which along the time enables to trace the entrepreneur's figure profile in a more precise way. In fact we must not forget that economic theory, in spite of every effort from the economist to make it general and abstract, originates just from the observation of historical reality in which it is soaked and whereby it is inevitably affected. Also in the works of the Austrian economist we can find such adjustments of the theories to the changed historical contexts. Economic literature, in fact, discriminates between an early Schumpeter, optimist and dynamic, affected by the period in which he lived in Europe, and a second Schumpeter, the American one, who was witness to the remarkable changes which were underway after the 1930s.

The entrepreneurial capitalism, to whose analysis Schumpeter spent all his life, was gradually replaced by the so called trustified capitalism, the one of the big business, in which managers and no longer entrepreneurs were the main actors of progress whereas innovative activity, not being entrepreneurs' prerogative any more, became endogenous in the system of the firms, which developed it through a constant effort of its specialised research units. Also in economic history, in particular in recent times, interest in the analysis of entrepreneurial activity incidence on the economic development is growing and it is interesting to note how the schumpeterian theory has found an extensive diffusion in it. It suffices to think that history of the undertaking develops along two reconstructive itineraries: entrepreneurial history, which is essentially intent on enhancing the single entrepreneurs' figures, in the direction traced by the early Schumpeter; and business history, interested above all in analysing the evolution of organisational structures within the enterprise, thus more consonant with the second Schumpeter.

The historical approach proved to be particularly interesting especially because it has fitted into a theoretical framework which, as has been noted at the beginning, hardly comes to define and clearly formalise which characteristics a successful entrepreneur must have. Precisely because of this, contextualization is an essential methodological step in order to be able to translate the impersonal theoretical images into real protagonists living in a very complex and diversified reality, which may positively or negatively affect the outcome of entrepreneurship. The context in which the business operates represents the fruit of long-term evolutions, whose foundations is almost always old and, at the same time, continually change in a dialectical relationship with the business. The outcome of this complex reciprocal-interaction relationship is influenced as much by rational factors, in first instance the dynamism of businesses and lobbies, as by stochastic factors. Therefore, to understand the nature and characteristics of the businesses, it is necessary to investigate the evolution of the cultural, social and institutional environment, by going in depth into such subjects as ethics, ideology, collective attitudes, and education.

In this respect, it is useful to enlarge on the effective contribution which business history gave in interpreting the evolution of the macroeconomic and social framework. Results seem to be particularly interesting as they shed light on the limits of the paradigm which had prevailed in economic history so far. According to this paradigm, economic development would have passed through Industrial Revolution, Fordism and the Big Business's success (Amatori-Toninelli, 2002). Research, on the contrary, has highlighted, at least with regard to the Italian situation (Scalera, 2001), experiences of entrepreneurs who, endowed with spirit of enterprise and commercial insight, were able to influence economic development according to what the early Schumpeter maintained.

The entrepreneurial personality who can be undoubtedly considered an innovator in a schumpeterian sense is for sure Adriano Olivetti. Olivetti's case is typical of the Italian capitalism, featured, for the most part, by family firms, right as this case study. First Italian typewriter factory, the "Ing. C. Olivetti & C." was founded by Camillo Olivetti, an electrotechnical engineer in Ivrea in 1908, but then it is his son Adriano the one who transforms the little business into a large international group which is a top of excellence worldwide. Adriano Olivetti was born in 1901, soon after having taken his doctor's degree in industrial chemistry at Politecnico of Turin, he began to work as apprentice in his family's firm. In 1925, together with the firm's technical director, he began a business journey to the United States just where, starting from the early 1900s, the big business established itself.

Once in the States, he visited Ford with its assembly lines, observed the internal organisation of big factories, the attention paid to the quality of products and to consumers' preferences. After having visited around a hundred factories, he returned to Italy with great ideas aiming at modernizing production: decentralized organization, assembly rationalization, but, first of all, the commercial network development in Italy and abroad and later, in 1931, the creation of an Advertising Department which, from the very beginning, benefited from the contribution of important artists and designers. The project of the first portable typewriter in 1932 bears witness to his particular attention towards consumers' needs (Renzi, 2008).

Adriano Olivetti was a concrete example of work ethics, he was able to instil into the firm, of which by that time he was president, the culture of innovation, the excellence of technology and design, openness towards international markets, respect for labour and workers, thanks above all to his clear-sightedness in selecting his collaborators. His continuous focus on innovation made it possible that, in addition to office products, Olivetti concentrated also on the emerging electronic technology. Back in 1952 Olivetti opened a research laboratory on electronic calculators in New Canaan, United States; in 1955 he started an electronic research laboratory in Pisa and, in 1957, founded with Telettra the Società Generale Semiconduttori (SGS). In 1959 Olivetti is able to present Elea 9003, the first Italian electronic calculator, which was developed with state-of-the-art technologies. While investments on electronics began to bring concrete results, Adriano Olivetti concluded an agreement for the take-over of the Underwood, a historic American typewriter firm counting almost 11.000 employees.

So the little business of his father's, which in 1924 had 400 employees, in 1950s employed nearly 16.000 people. When Adriano Olivetti suddenly died in 1960, he left behind him a business with circa 36.000 employees, the half of which being abroad. Adriano Olivetti was not just a clever entrepreneur-innovator; he was also a man of wide culture endowed with a quite modern ethic vision of the firm. According to Adriano Olivetti, the firm is not just a production place, it is the main engine of the economic and social development; an engine which must also take the responsibility of putting more job opportunities, more products, services and culture at disposal of the community and its territory.

In his management style, improving employees' conditions was a major issue (Berta, 2002). A works council (Consiglio di Gestione) was created at Ivrea's plants in 1948. It will have been for many years the only Italian example of joint committee with an important consultative role, which was binding on welfare issues. Employees obtained from Olivetti economic, working environment and social services improvements, often anticipating the collective labour agreements. The firm built also for his workers residential areas, new houses for the social services, a library, a canteen.

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