Capital-Owners, Entrepreneurs and Managers: A Marshallian Scheme

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Most economists in the twentieth century seem to be more interested in theoretical representations than concerned with the reality of business. In fact, L. Robbins (1935), for example, dismissed all concern for details about the management of production. For him, Economics was about scarcity and the efficient allocation of resources in response to prices. Details of how an economy responded and about the role played by firms in organising this response were beyond the scope of Economics. For Robbins, “the firm” was, simply, a theoretical instrument of optimisation or a function of production. Although it may go a little bit against the mainstream, we consider that firms and businessmen activities can be of very much interest for theoretical economists.

Driven by his desire for authenticity, Alfred Marshall tried to reflect in his writings the way in which corporations handled their daily operations at his time. Mary Paley, his wife, used to say that one of the favourite occupations of her husband during summer was to visit factories all around the country to talk to managers and workers. Marshall liked to do this in order to be aware of the kind of problems that firms had to deal with. One of them was the distinction among the concepts of capitalist owner, entrepreneur and manager, which were entangled in the economic literature of his epoch. Marshall made an effort to understand and clarify those differences; something as relevant then as it is today.

We begin this paper describing how Marshall understood the capitalist-owner concept. In section two, we analyse the way in which access to capital determined the emerging role played by entrepreneurs. Next section is used to highlight the differences between entrepreneurs and managers in order to portray –from a Marshallian point of view- the characteristics that defined managerial activities (part four). In section five, we comment the evolution of these concepts after Marshall’s death in 1924. And finally, we conclude with some comments on why and how the different notions and distinctions among capitalist, entrepreneur and manager are pertinent, as well as some suggestions for further research.

THE CAPITALIST-OWNER OF THE BUSINESS

It is difficult to speak about “British entrepreneurship” even though it is a concept that has been widely used in the specialised literature. The truth is that we know little about English businessmen at the turn of the nineteen-century. Being a businessman at that time was not a profession, not even a constant activity. In a way, it makes little sense to comb the archives looking for particular individuals who might be denominated entrepreneurs. The distinction between entrepreneurs and managers as notions that symbolise two polar types of conduct has become a commonplace in the history of economic thought literature. Certainly, the comprehension of the dissimilarities in both functions is essential in order to avoid confusions between entrepreneurs and those individuals who are occupied with the customarily aspects of business administration. But understanding the entrepreneurial task in the market has never been an easy thing, something that is noticeable in the virtual elimination of such meaning in many essays in price theory, or in the numerous attempts to define the entrepreneurial role (Kirzner, 1975:42). These efforts reflect the desire to identify something, namely entrepreneurship, whose presence is felt but which can only vaguely be defined.

Marshall developed an approach to these concepts partially based in the performance of businessmen in the economic process, as well as in their central position in the business activity. He drew
from these two aspects a varied portrait of the businessman that embodied, at the same time, roles as co-ordinator, arbitrator, innovator, risk-taker and interpreter of market signals. These roles run in parallel with the reasons why a man in business can receive different returns: interests from capital, profits for being the risk-bearer, or a salary as a hired man.

Marshall assisted to the birth of the first public corporations. He perceived vast possibilities in this new form of business organisation in addition to several threats. Among the latest, to begin with, he envisaged what we now call the principal-agent problem. To him, the unequal distribution of power and influence within corporations provoked an asymmetry of interests between the capitalist, who was the one that furnished funds for the business, and the director of the company’s daily activities (PE: 604). That is, a separation between the decision-making or control mechanisms of the business, and its property (PE: 303).

Secondly, the director of the business did not have an incentive to maximise profits: “they ran no risks for its failure, beyond some loss of prestige and a possible loss of employment” (IT: 311). The idea of relying on men who knew how to judge the abilities of workers under their direction was positive, but, according to Marshall, did not functioned well (IT: 321) because those directors seldom had the enterprise, the energy, the unity of purpose and the quickness of action of entrepreneurs (PE: 604). Both, the director and the capital-provider, endured uncertainty but the extent and the source in both cases were different. This fact, again in Marshall’s terms, originated conflict of interests. For him, the ownership of capital was divorced from its control: “so those who are in control have not nearly the same pecuniary interest in its economic and efficient working as they would have if they owned the business themselves” (IT: 317). Due to the fact that the stockholder looked fundamentally for profits, his temporal horizons usually were much shorter. This is why the criterion of enduring uncertainty ceased to be relevant as the only valid characteristic to evaluate businessmen activities.

What really happened within businesses, in accordance to Marshall, was that the power was transferred from owners to managers, who began to consider stockholder only as contributors of capital: “The shareholders bear the risks, but delegate nearly the whole of their functions, as owners of the business, to the directors and other employees. But in practice the directors are seldom displaced unless they have made grave errors” (IT: 311).

The distinction between talent and money also helped him to clarify the difference between capitalist and entrepreneur, as it can be found in Marshall writings: “many of those who would be the most competent to manage difficult businesses with wisdom and enterprise, are repelled from great risks, because their own capital is not large enough to bear great losses” (PE: 613), but they do know how to make a return using the capital of others. The capitalists could, of course, have traded with their own capital, but as one of the most prominent expert in Marshall’s thought, David Reisman said, (1988: 314) ‘that they have decided not to do so, ---that they chose interest when they could have had profits– must inevitably suggest that they have more cash than dash’. In this sense, capitalists would act irrationally if where facing risks without having a full participation of the profits.

To decide who had the right to retain profits, “the residue”, is linked to the understanding of the separation between property and control of the business. Marshall pointed out that this was the underlying fact in order to explain what was occurring in the reality of his era. Despite the fact that the effective control of the corporation was in hands of salaried managers, “something that tended in the direction of democratising the ownership of capital” (IT: 319), in fact what he really perceived was that the stockholders where the ones who kept the residue from businesses (PE: 302; IT: 265-6).

The archetype of British businessmen in Marshall times was characterised as a simple contributor of capital, the one delegated to assure that the oil to maintain the productive machinery in good working order was never lacking. This was a perspective anchored in the tradition of Adam Smith. It is true that some authors such as J. S. Mill had criticised Smith for this too simplistic view of the firm and the so-called superiority of the owner manager in opposition to the hired professional. Mill recognised that the latter could not have the same degree of motivation as the owner but his knowledge and abilities could be far superior, which, in a way, was one of the advantages of large professionally managed firms (Mill and his father were full time employees of the East India Company).
Marshall built on the above insights in order to assert the distinction among the capitalist man, the entrepreneur and the manager. Certainly, this is something that took him many years of thorough observation. He began viewing the figure of the capitalist-owner not merely as such, but rather as another case of the archetypal British entrepreneur: “no business can be started with a small capital” (MCC: 78). His final writings reflected an evolution in the sense that it was “no longer true that a man becomes an employer because he is a capitalist. Men command capital because they have the qualifications to profitably employ labour. To these captains of industry (...) capital and labour resort for opportunity to perform their several functions” (PE: 606n). To him, that was the reason why “the success of small Jewish masters in the East End of London seems to be partly due to the care with which they select for each man work suited to his latent aptitudes” (IT: 247n). For Marshall, “it is not true that under competition labour is hired by capital: it is hired by business ability in command of capital” (Mem: 245), two distinct tasks that could be performed by the same person.

In the following sections, we will analyse how Marshall moved from the old ideas regarding the role of businessmen, to the concept that is commonly used now in the specialised literature to describe the complex set of functions embodied by business people and the reasons why they have the right to reach returns.

THE ENTREPRENEUR

The extent to which entrepreneurship and ownership of capital is related, has being a much-debated question. For Marshall the point of reference was the capitalist-owner, the pioneer of the Industrial Revolution, “men of affairs, who owned a great deal of the capital (...) many of whom were in close touch with its administration” (IT: 312). In those years the problem was not so much one of money given that there were many businessmen among England’s most wealthy people.

At first, Marshall tried to reconcile changes in the way business was administered with the need to possess some capital since there were increasingly more people, he says, disposed to lend capital because they did not want to use it themselves. The obstacle to this “democratisation” in the access to capital was “in the growth of complexity in business” (IT: 315). This is the same Knightian thesis according to which an individual could not perform an entrepreneurial role without enduring uncertainty. For this reason, Knight and Marshall concluded that the entrepreneur “ought to be the owner, since he can guarantee nothing without his patrimony (Mem: 332-3). Business required personal capital.

It soon became clear, however, that businessman faced risks to the extent that he was the capital providers, and not the entrepreneur. Capitalists committed themselves to the capacity and honesty of others, when he by himself had incurred the risks for having contributed with the capital: “A man trading with his own capital has every motive for exerting himself to discover whether he is carrying on his business at a loss. But the man working with borrowed capital has not such strong” (EI: 135-6). This is the way in which the entrepreneur -as somebody who ran the business without being necessarily the owner of the capital-, began to play a role in the direction of business. This type of entrepreneur had the control of money that was provided by others: if things went badly, he will surely lose less than the capitalist.

Marshall described both attitudes: “let us suppose that two men are carrying on similar businesses, the one working with his own, the other chiefly with borrowed capital. There is one set of risks which is common to both; which may be described as the trade risks of the particular business (...) But there is another set of risks, the burden of which has to be borne by the man working with borrowed capital, and not by the other; and we may call them personal risks” (PE: 590). Ultimately, the entrepreneur risked at least his reputation and the salary he could obtain in other activities.

Since interest is the remuneration of capital, all businessmen, whether or not they work with borrowed capital, rely upon interest earned from capital invested as a part of what they have to recover together with the profits. Therefore, profits and interests are remuneration of different charac-
ter. That a person may be entrepreneur and capitalist at the same time should not cause us to consider interest as part of the profits (PE: 607).

Another factor that Marshall envisaged was the role played by the capital provider decreases with size. He intuited that the possession of capital in business was not an essential factor, at least in small firms: “but, as his capital is small, the capitalistic basis of his control over them is commonly ignored” (IT: 49). The “personal capital” provided by the entrepreneur is more important: “those who have a high ability and the ‘personal capital’ of a great reputation (...) will have no difficulty in getting command of enough capital” (PE: 307-8). In essence, personal qualities were the ones that really count given that “the able business man generally finds that in the long run the capital at his command grows in proportion to his ability” (PE: 311). Thus to him it was clear that “there is a force which put business ability in command of the capital required to give it scope” (PE: 663). When the size of the firm increases (“the growing complexity of business”, PE: 308), the “pure capital” (PE: 73) takes the leading position, and the human capital is left behind. This was the way by which Marshall arrived to the idea that “industry is limited by capital” (PE: 785-6).

Hence, the possession of capital was just another element to distinguish between the capitalist and the entrepreneur: “many employers have but little capital of their own and the interests of owners of capital radiate towards them” (PE: 544). When he considered whether it was more advantageous to work with personal or borrowed capital, he left the question open because it was something that in his opinion relied basically on the type of industry. Thus he who borrows is disadvantaged in industries that require greater lengths of time to produce benefits. The danger is the refusal to renew the loans, and may “cause him to succumb to what would have been but a passing misfortune, if he had been using no capital but his own” (PE: 311). This is not the case when “bold and tireless enterprise can reap a quick harvest”, so, “it is he who by his quick resolutions and dextrous contrivances (...) forces the pace” (PE: 603).

It is interesting to notice that, forty years later, Schumpeter insisted in the argument that at the end of the 19th century the majority of businessmen were capitalist owners of their firms as a proof of Marshall’s incapacity to understand what a businessman was. Schumpeter’s argument is inconsistent even with descriptions of the business environment known to Cantillon or Say, people who lived one century before. Marshall himself verified in 1890 that “they are not required to bring any capital into it, (...) they offer very large opportunities to men with natural talents for business management, who have not inherited any material capital, or any business connection” (PE: 302). For this reason, the lack of direct access to capital was not a significant factor in breaking the offer of “organisational ability” (IT: 329). This is the distinctive characteristic of successful entrepreneurs (PE: 298).

When considering the access to capital markets, Marshall had in mind the acute differences among several banking systems, specifically the British and German ones. The entrepreneurial need of credits explains Marshall’s reproaches to English banks for limiting themselves to operations with little risk, thus depriving businesses of financing that were vital to them (IT: 619). There were severe restrictions in obtaining capital, especially for small businesses (IT: 247-8). The British banking system was unable to support the growth of these kinds of firms by means of an adequate financial provision, mainly because banks were more interested in overseas investments. By way of contrast, German firms always had at their disposition almost the entire national capital with a rate of interest lower than in London. The German banking system combined commercial and financial functions.

Another aspect of the English banking system was its incapability in providing guideposts to businessmen activity. As Marshall said, only after “he can show his ability in misfortune as well as in success” (PE: 311) the decision to lend him money is taken, once the business is consolidated. English banks were passive rather than active, responding to demand rather than creating it, without taking the trouble to encourage new business, or to direct capital where it could assist technological development. For Marshall, British banks would have shown more intelligence by acting as the Germans, who faced great risks in lending to businessmen before having proof of their ability to succeed (IT: 348). This divorce proved to be disastrous the moment British industry initiated a process of
concentration in the beginning of the 20th century. Had English banks followed the German model, they would have stimulated this movement and assured that it was rationally organised. The separation of the functions of industrial entrepreneurs and the owners of capital had a negative effect in the Islands.

This limitation was reinforced by the self-financing structures of many English firms (PE: 310). The British banks gave preference to foreign governments and public service. London was the financial capital of the country, but great industry was located in Lancashire, with little connection between them. The banking failure in the Depression of 1873 made English financial institutions became very cautious and played, thus, a reduced role in the long-term financing of industrial activities.

The structure of business, most of them small and family-owned, reduced the ability of management to obtain capital to execute large-scale expansion. Self-financing reinforced the prevalence of this industrial structure in England. Firms remained small through lack of finance, insofar as family entrepreneurs were reluctant to enter the capital market for fear of letting in foreign control (Aldcroft, 1964: 131-2). Family control engendered conservatism. This explains why by 1914, nearly 80% of British companies were private, with an absence of any appeal to the general public.

ENTREPRENEURS VS. MANAGERS

In modern literature, the most interesting way to find differences between the active entrepreneur and the passive superintendent-manager is to analyse their roles whenever there is the need to look for a new equilibrium after an economic shock. Entrepreneurs are characterised for discovering new data sets. On the contrary, in the neo-classical period, it was not clear who did it. Marshall pointed out that the manager carried on the orderly task of superintendence. If from exogenous shocks, we move to a dispersed and incomplete knowledge setting, then we have a permanent need to gather information in order to take decisions. This job could be included in the “tasks of orderly business management” (IT: 663) to be handled in an approximately routine fashion, but requiring skill and attention to be done well.

However, Marshall was more interested in endogenous process through experimentation by businessmen. Hence, his concern for initiative as a feature that distinguished entrepreneurs. But initiative should be well informed, and much of the information was gathered in the ordinary course of business activities through the firm’s “external organisation”, created in the ordinary course of business. Thus, in a small business, manager and entrepreneur features were combined, and in large business, “the division of labour between them had to be matched by close connection” (PE: 241). “Differentiation” and “Integration” were twin brothers in Marshall’s terms.

It seems that Marshall connected his notion of “Differentiation” with those aspects of the businessman life more related with an entrepreneurial attitude: “the division of labour and the development of specialised skill, knowledge and machinery” (PE: 241). On the other hand, “Integration” refers to the routine activity of managers. Establishing the limits and the characteristic traits of the functions undertaken by the entrepreneur and the manager is not an easy thing. Marshall himself highlighted the difficulty when he affirmed that “we may regard them as a highly skilled industrial grade or middlemen intervening between the manual worker and the consumer” (PE: 293).

What distinguished the entrepreneur from the manager in the Marshallian scheme was also the recognition of the extent to which the organisational structure imposed restrictions in the decision-making process, and the desire to change this structure (PE: 662). The manager made his decisions from within the existing limitations, whether he has recognised them, or not. Whereas the “undertaker” recognises that a change in the organisation can create greater opportunities for profit (IT: 247n). This is a contrast between passive managers and active entrepreneurs’ attitude.

While fulfilling an essential role, Marshall did not consider the managerial function to be as important as the entrepreneurial one because the first, like any other factor of production, could be
purchased in the market. A chief function of business undertakers was to facilitate “the free action of this principle of substitution” (PE: 662). It is interesting to notice that later, in the 4th edition of Principles, he replaced the word “undertakers” with “enterprise” (PE, II: 691). So, for there on, the word undertaker would mean enterprise or organisation. By contrast, the entrepreneurial function was important because “even in the same place and the same trade no two persons pursuing the same aims will adopt exactly the same routes” (PE: 355). For Marshall, what defined a firm’s competitive position was the ability to carry out the entrepreneurial function.

Even though both functions, entrepreneurial and managerial, were sometimes performed by the same person, differences were not always easy to see. In observing the behaviour of businessmen, Marshall noticed that the same person did new things and routine work at the same time: “he performs two entirely distinct services on behalf of the community, and requires a twofold ability” (PE: 297). He distinguished two roles in the employer, of which “the superintendence is but one side and often not the most important side of business work” (PE: 297).

Marshall’s position was that the routine tasks that required no energy could be left to organising bureaucrats. Such a separation of functions granted freedom to talented persons to design or innovate: “the head of a large business can reserve all his strength for the broadest and most fundamental problems of his” (PE: 284). But “managing a business is a very difficult matter” (Mem: 244). In essence, Marshall recognised that it was hard to combine both tasks: entrepreneurship and superintendence (PE: 284).

The success of the firm depended on someone who could identify opportunities in the midst of adversity, so he could create an organisation designed to take full advantage of such opportunities. It was the entrepreneur and not the manager-superintendent who “looks far ahead, estimate chances and balance risks” (IT: 309). “It is the first who makes the assurance that the business reacts with energy in the face of its challenges without losing its verve for the future” (Mem: 244). This was so because there is questions for whose resolution the entrepreneur was irreplaceable: “this task belongs to the head alone: it cannot be delegated” (IT: 355). He insisted in the same point in his writings when he asserted that not all business men had the same vigour for business: “many have prospered by a steady adherence to affairs of a routine character”, whereas there were others, “men on whose work the progress of industry most depends” (Mem: 331). For him, there was a great difference between “the humdrum business man, who has inherited a good business and has just sufficient force to keep it together” (PE: 623), and the powerful initiative of a great constructive genius.

Marshall provided some examples of this disparity in maritime, publishing and textile manufacturing commerce, as well as in agriculture. For instance, the farmer could follow “his own and his father’s experience”—the “beaten tracks”—or being abreast of technical advances (PE: 652). In other industries, the active entrepreneur “devotes his mind to analyse the general trend of business (…) while he gets his carrying done for him by men who require more administrative ability, but need not have the same power of forecasting the subtler movements of trade” (PE: 296).

It is paradoxical that the distinction between entrepreneurs and managers acquired its complete meaning in Schumpeter, who used it as one of the cornerstones of his History of Economic Analysis. Instead of paying tribute to Marshall, Schumpeter accused him, ironically, of confusing the managerial functions with the ones exerted by businessmen, even though Marshall’s texts (PE: 297) in which he adduces to support his claim, maintains just the opposite. Later on, Kirzner (1975), building on the Austrian tradition, also criticised Marshall as some one who had in mind a ‘entrepreneur-manager’, a mixture of both functions, a businessman who takes the administration and risks of the business (PE: 293). Again, we think that the criticism was unfair. As a matter of fact, both functions were separated in the Marshallian analysis: “it requires the guidance of a few minds with a faculty of imagination; as well as of many that are persistent in the orderly development of details” (MCC: 246).

It is easy to find many other passages in which he asserts this viewpoint: “business undertakers are to a certain extent a class apart” (PE: 663). Despite Schumpeter’s claims, Marshall attributed the entrepreneur “talent and genius”. He distinguished between the active member who employs, and the passive member who is employed, between the man of initiative and the man of routine.
The profound knowledge that Marshall had of the business realities of his era, helped him to identify in diverse industrial sectors the function of entrepreneur, who assumes the principal risks of the business, by way of contrast with the manager who controls the details: “they rely on their own judgement for the decision as to what are likely to be the coming relations of demand and supply, but they entrust to others the management of details” (PE: 294).

The misunderstanding on Marshall ideas may come from certain passages of Industry and Trade where he talks about a certain class of businessman associated with the first stages of capitalism who was “the undertaker of the work and risks of organising supply” (IT: 48). Even though the entrepreneurial relation with risk was maintained throughout Marshall’s work, certain passages as the following can certainly induce to error: “his functions as a ‘master of men’ rose to an equal level with his function as an organiser of production and marketing” (IT: 48). In this sense, Marshall indeed provided his critics with ammunition.

We have exposed the two features of the Marshallian businessman: active entrepreneurship and the passive superintendence (IT: 49). Thus it appears that at a given moment Marshall noticed that the assumption of risks by these first undertakers would not occur in the new situation created by public corporations in which their responsibility would be assumed by capitalists. The same reason appears when he criticises those American authors who include risk as an element of profit and cost: “this use of the term seems on the whole not advantageous, because it tends to class the work of management with mere routing superintendence” (PE: 613). In business where the risk is small, the work is basically one of vigilance.

For Marshall, business profits included different elements even though “the employer is often taken as a term practically coextensive with the receiver of business profits” (PE: 297). To him, after deducting all the costs from gross profits, there remains a recompense or residue that the organiser appropriates for himself: the “organiser’s profit”. This remains included pay for the two separate tasks: the direction and the administration of the enterprise. The work by which an entrepreneur got his residue was of two kinds: “the first is that of organising the productions; of determining what shall be made and how it shall be made; and of deciding where and when to buy and sell. We may adopt an American term, and call this Engineering the business. The second part of his work, which may be called that of Superintendence, consists in providing for the proper carrying out of his instructions” (EI: 221).

Albeit we acknowledge the fact that some parts of Marshall writings may induce to certain confusion, for us it is clear that he understood with precision the basic differences between both functions. To Marshall, the archetypal entrepreneur should have particular gifts as an innovator, for which reason he would receive a reward that was different from those who were routine employers: “we may divide employers (…) into two classes, those who open out new and improved methods of business, and those who follow beaten tracks” (PE: 597).

THE MANAGER

As we have seen, entrepreneurs were crucial in small firms. The qualities of entrepreneurship such as initiative, drive, risk bearing, among others, epitomised a way of doing business in an epoch. The emergence of public corporations at the turn of the twentieth century meant the coming out of managers. Marshall indeed considered an important phenomenon the substitution of the capitalist-entrepreneur by the manager. “Improvements in a standardised industry goes together with a certain decline in the place held in that industry by the high faculties of initiative: they are apt to be overshadowed by the more commonplace faculties of orderly administration and commercial skill” (IT: 243). At the same time, the dangers were great because the latter “are likely to go along quietly in accustomed routes, and avoiding the trouble and worry of new initiative”, whereas the “owner of a business, when contemplating any change, is led by his own interest to weight the whole gain that it would probably bring to the business” (IT: 324).
The neo-classical theory unites entrepreneur and profits supporting this trend. It attributes profits to an exogenous uncertainty, leaving aside those entrepreneurial qualities that for Marshall were the main sources of the residue. There appears the abstract person who produces nothing and in the majority of cases only ‘manages’ resources. In fact, Marshall affirmed that “judicious, orderly and vigorous management of routine will often suffice to enable a business to prosper in an industry, the methods of which are stereotyped” (IT: 645). But at the same time, Marshall insisted that “such management, while useful in its generation, has contributed very little towards progress (…) Progress has been affected on the practical side by those business men, who have been alert to invent or adopt new ideas; to put them into practice, bearing the risks of loss”. Again and again, Marshall came back to praise the energy of those captains of industry who were the driven force of the British industry in the nineteen-century.

From an initial reluctance, Marshall began to consider the function of managers who lack incentives and avoid risks that lead to innovation: “the path of least resistance, of greatest comfort and least risk to himself is generally that of not striving for improvement himself, and of finding plausible excuses for not trying an improvement suggested by others, until its success is established beyond question” (IT: 324). By way of contrast, these managers possessed greater formation and systematic experience. Those salaried men were more inclined to avoid challenges, innovations and what Schumpeter called the ‘perennial torment of creative destruction’ in favour of a more tranquil life. This type of man was more prone to be honest and responsible, but only with difficulty will he has energy and imagination. “The manager runs no risks from its failure, beyond some loss of prestige and a possible loss of employment” (IT: 311); he has no incentives for maximising profits.

To Marshall, the new managers had nothing whatsoever in common with the old-fashioned entrepreneur “in his zeal which leads him to plan without rest ways to obtain more profits or cut costs and who was worried over small savings and small gains”. From the way in which Marshall understood entrepreneurship in his early writings, proceeds his suspicion towards new industrial organisations: “it is probable that such a business is managed with less energy than a private company” (EI: 137).

Nevertheless, the evidence took Marshall to acknowledge the fact that, in many aspects, the manager of public corporations had certain entrepreneurial notes. Specifically, he arrived to this conclusion while discussing the relations between managerial and entrepreneurial skills, something he related to a distinction between the execution of ideas and their conception: “the responsibility of advancing the details is left to subordinate officials, while the directors dedicate themselves to fundamental problems” (IT: 321). Whereas Schumpeter sees management as locked into routines (Loasby, 1991: 62), Marshall perceives that the execution of ideas generates fresh knowledge.

A final element in the Marshallian analysis on the distinction among the capital provider, the entrepreneur, and the manager, was the contrast that he perceived between the English environment, appropriate for producing entrepreneurial character, and the more disciplined German as one in which there was more room for bureaucratic managers: “England had converted itself into the first industrial nation because its people never were pushed by authoritarian attitudes” (IT: 580). This was for him the breeding ground of business ability, above all the habits of forecasting and prudence that he liked so much. “Bureaucratic management is less suitable for Anglo-Saxons than for other races who are more patient, more submissive and less full of initiative” (Mem: 275).

In countries like Germany excessive discipline did not help the innovator (IT: 129), although he observed significant changes in “the energy, the originality and the daring which make the best men of business in England and America have but recently been fully developed in Germany (…) the special virtues of private industry, its vigour, its elasticity and its resource are beginning to be seen in full development there (…) much of which is of Jewish origin” (PE: 753). The German people would have been able to recognise “their weakness in practical instinct and organising faculty, took the part of pupils of England” (IT: 132-3). In his opinion, the German character encountered its most adequate expression in salaried bureaucrats than in businessmen.
WHAT HAPPENED AFTERWARDS?

Marshall is one of the ‘founding fathers’ of neo-classical economics. This does not imply a complete adhesion to the postulates of perfect competition. But the extensive identification of his thought with the model of general equilibrium, has lead to the ignorance or distortion of many valuable intuitions, one of which is the true distinction among capital providers, managers and entrepreneurs.

Economic literature after 1890, the year in which Principles was first published, is full of comments and explanations of the Marshallian theses about entrepreneurship. All these brought to light not only changes in focus and the abundant loose ends in his formulations, but also the problems posed by a concrete manner of understanding business and the businessman. The misunderstandings of many of his valuable contributions were caused by the readings made by some of his direct successors. This led the theory of the firm, and the role played by the businessman, to one of the most notable dead ends in Economics.

In the later development of economic theory, the businessmen virtually disappeared to the point of converting him into pure fiction. The firm was reduced to a black box designed to look for the most appropriate combination of factors to exploit market opportunities: a simple theoretical instrument of maximisation and optimisation. The problem came by ignoring the limitations of the neo classical model, and in trying to apply it to a world that had changed. As O’Brien (1990) pointed out, it was the belief that in economic analysis ‘competition’ had to mean ‘perfect competition’, something that became evident when Sraffa (1926) spoke indiscriminately about ‘competition’ and ‘perfect competition’. Robertson (1927) gave the businessman a single solution for each business problem, instead of the complete analysis of possibilities that Marshall had foreseen. Robinson (1928) took the next step by denying the conceptual value of the “representative firm”, a notion that Marshall had conceived simply as an emitter of information for those new businessmen who wanted to enter a new industry, nothing else.

These authors paved the way for the world of information without costs that characterised the literature of the 30’s, eliminating the Marshallian businessman who tries to reduce costs. The bases for a different approach to businessmen’s performance were, thus, being set. As a matter of fact, concepts that Marshall considered fundamental in the theory of the firm such as decline of businesses and localisation were eliminated.

Pigou (1925) made the transition to Chamberlain and Robinson with his firm ‘in equilibrium’, which is a simple function of production, and eliminated all the dynamic elements of Marshall’s ideas. This Pigouvian concept is the one that has come to us as the neo-classical model of profit maximisation. Robinson and Chamberlain took the next logical step by polishing Pigou’s theory of the firm in an industrial situation characterised by businesses in equilibrium that face similar market circumstances, in which businessmen were not necessary. It is not surprising that from this perspective, the Marshallian entrepreneur makes no sense. The popularity of the theory of general equilibrium meant a brake to studying in depth the theory of the businessman in line with Marshall’s contributions.

Walras excluded the meaning of businessmen in his economic views. The Walrasian arbitrageur’s main concern was to make markets reach equilibrium, and the way to achieve it. There fore is understandable his lack of interest in the businessmen function, and the reason why he centred his efforts in the deduction of the basic laws of a state of general equilibrium. This focus distracted attention concerning processes towards an equilibrium that is never attained; something in which Marshall was more interested. Confining economic activities to situations of equilibrium caused little attention to be given to explaining what the nature of the businessman’s role is. Furthermore, with the redefinition of the businessman’s tasks as something external to the firm, Marshall’s life cycle effectively disappears and what remains internal to the firm is only the managerial function, thus eliminating the entrepreneurial one (Niman, 1991). In contrast with the Walrasian equilibrium in which firms and
businessmen have no place to be, the Marshallian scheme goes beyond the limits of general equilibrium.

The lost of Marshall’s intuitions after his death is easy to explain taking into account what happened during the 30’s. The whole idea of the businessman looking for profits ceased to have meaning in an economic world dominated by the postulates of Walrasian general equilibrium and perfect competition. At the same time, Marshall’s insights about the entrepreneur who innovates were taken over by Schumpeter and the later literature that addressed the business innovator.

CONCLUSIONS

This article claims that Marshall made a contribution to the management history through his analysis of the different roles played by businessmen. He identified three distinct actors whose characteristics evolved during the turn of the twentieth century: the capital owner, the entrepreneur and the manager. Our starting point has being Marshall’s different ways to isolate the key factors that explain what a businessman is: capital provider, uncertainty bearer, or knowledge’ user.

The Marshallian viewpoint changed throughout his lifetime. At first, Marshall thought that the businessman should possess some capital, and that the risks he faced were those associated to the fact he was a capital provider, not an entrepreneur. The businessman without capital (“superintendents”) faced other kinds of risks, mainly related to his reputation and the opportunity cost of his work. Marshall used the distinction between small businesses, where personal capital was prevalent, and large in which financial capital was fundamental, to draw a line: in small firms businessmen embodied managerial and entrepreneurial roles, while in large ones, the division of labour made them passive administrators.

Marshall assisted to the emergence of public corporations. This is why he considered as a phenomenon of great importance the substitution of the capitalist-entrepreneur by the manager-entrepreneur around the change of the century. Though he insisted on the lack of incentives of managers and their risk-averse attitude in his early writings, later on, he acknowledged that in many aspects, managers had certain entrepreneurial notes.

After Marshall’s death, those intuitions were criticised mainly by Schumpeter on the basis of an alleged confusion of the entrepreneurial and managerial functions. The subsequent development of the economic theory towards a model of general equilibrium, put aside the function of the entrepreneur almost to the point of disappearance.

The last 25 years have witnessed a growing concern for entrepreneurial spirit. The origin of this may be found in the massive destruction of employment in large corporations. The prevailing economic models were unable to explain what was happening inside the firm, the different activities that businessmen should accomplish, and the significance of entrepreneurship. These explain the renovated interest in Marshall’s intuitions: people discovered that an economist who lived 100 years ago had a reservoir of good answers.

In short, Marshall’s analysis is useful to explain:

a) The problem that arises in the firm when property (capital owner) and control (manager) are separated: the principal-agent relationship.

b) Why directors of today’s firms are required to embody qualities as administrators (passive superintendents) and innovators (active entrepreneurs).

c) How to sort out the conflict that occurs in many family firms when the founder (entrepreneur) is unable to cope with the managerial complexities associated to growth (the Marshallian “cycle life” of business and entrepreneurs).

Moreover, Marshallian ideas has the potential to deal with many other aspects of the business environment, such as the activities of the so called ‘business angels’, or the role given to intrapreneurship in modern firms.
REFERENCES


Structured Abstract

**Capital-Owners, Entrepreneurs and Managers: A Marshallian Scheme**

Keywords:
Alfred Marshall, capital owner, entrepreneurship, management

Abstract

Alfred Marshall (1842-1924) made contributions to management history through his analysis about the different roles played by businessmen. He identified three distinct actors whose characteristics evolved during the turn of the twentieth century: capital owner, entrepreneur and manager. To do this, he considered businessman’s several aspects: as capital provider, uncertainty bearer, and knowledge’ user. We think that the Marshallian analysis is useful to explain: the problem that arises in the firm when property and control are separated; why directors of today’s firms are required to embody...
qualities as administrators and innovators; how to sort out the conflict that occurs in many family firms when the founder is unable to cope with the managerial complexities associated to growth. In this paper, we explore his insights in order to reveal why Marshall stands the test of time.