THE POTENTIAL OF PARSONS’ SYSTEMS THEORY FOR
THE STUDY OF ENTREPRENEURSHIP

Amanda Elam, Babson College, Babson Park USA
Deepak Sardana, Australian Graduate School of Management, Sydney AU

ABSTRACT

What role does entrepreneurship play in the economy and society? Despite drawing on a plethora of disciplinary
perspectives, the consensus in the field of management seems to be that entrepreneurship serves as a key source of
economic growth, primarily through innovation, for any given social system. The facts, however, are muddy on this
point. We draw on Parsons’ system theory of the economy and society to help clarify the key functional role that
entrepreneurship fills. While we do this, we also clarify our position on other aspects of entrepreneurship that is of
vital interest to entrepreneurship scholars (like nature of innovation and role of entrepreneurs). We do this by
generously drawing up on the scholarly work of eminent theorists and comparing their fundamentals to Parsons
Framework. We conclude that Parsons Framework is the most comprehensive and integrative framework that helps
in answering major questions related to entrepreneurship field.

INTRODUCTION

The study of entrepreneurship currently benefits from the contributions of several insightful theoretical paradigms.
Economic theories have developed the links between entrepreneurship and market characteristics and processes.
Psychological theories have explored the elements of the entrepreneurial spirit. Sociological theories have
highlighted the importance of social structures, developmental processes and ecological characteristics.
Anthropological studies have further revealed the importance of local context and culture for entrepreneurial
activity. Moreover there are visible overlaps in the perspectives and topics pursued by scholars from all of these
fields.

Importantly, however, most of the theoretical and empirical progress achieved in this field of study, to date, is
founded on the importance of entrepreneurship as a key driver of economic growth. Indeed, an entrepreneurial
culture encouraging innovation has become one of the hallmarks of modern societies looking to achieve high growth
and development. In Russia, India, China, East Europe, and indeed in most other parts of the world, there has been a
systematic effort over past two decades to embrace the “free-enterprise revolution,” pioneered by western
industrialized countries. From this perspective there is, as Bygrave (1993) suggests, particular value in better
understanding entrepreneurship. Findings on the relationship between entrepreneurship and economic growth,
however, are limited and, frankly, mixed (van Praag & Versloot 2007).

Some evidence from the field of entrepreneurship suggests a correlation between rates of entrepreneurial activity
and economic growth (van Praag & Versloot 2007; Wennekers & Thurik, 1999). However, the results are largely
inconclusive for a variety of reasons (van Praag & Versloot 2007; Reynolds, 1999). For example, large businesses
are also highly visible drivers of economic growth in both developed and developing economies, whether measured
in terms of job creation or GDP (Davis, Haltiwanger & Schuh 1996; Acs & Mueller 2007). This kind of finding
challenges a fundamental assumption among many entrepreneurship scholars that small businesses are the primary
sources of economic growth.

Part of the problem in sorting out this relationship concerns the dispute over what constitutes entrepreneurship and
the methodological challenges of studying businesses across levels of analysis, for example. The trend towards a
focus on high-growth entrepreneurship obfuscates the embeddedness nature of entrepreneurship. Scholars who
study high-growth firms, especially under the assumption that actors (individuals or organizations) are atomistic
actors, tend to overlook the importance of what has been termed regional, or, entrepreneurial capital (Audretsch &
Keilbach, 2004). Institutional perspectives, community ecology, and population ecology perspectives demonstrate
the importance of the local environment as a source of determination, not only for rates of entrepreneurship, but also
for the forms or contexts. Such perspectives prefer to define entrepreneurship in terms of venture creation rather
than innovation -- in part because it is easier to study, but also because this approach reduces the likelihood of overlooking important factors and sources of innovation, including the small-time players or lifestyle businesses that so often serve fundamental support roles within networks, supply chains, and local communities surrounding high-growth firms.

Another challenge faced in entrepreneurship studies is the difficulty of predicting high growth firms and trends. Scholars, investors, and market analysts interested primarily in high-growth businesses are constantly on the lookout for transformative technologies. How often are these trend watchers surprised by the emergence of some forms and sources of innovation? For one thing, innovation is inherently path-dependent, thus incremental in nature, and the transformative potential is next to invisible until well into the adoption trend. For another, cultural factors which often play powerful, but largely invisible roles in market processes are often at the heart of invention, commercialization, and adoption trends. In fact, the challenge of tracking innovative potential among existing and, often, large firms is great. However, to discern such potential among new firms presents an even greater challenge, given the low information and liabilities of newness and smallness faced by new firms.

Hence, the mixed findings and points of debate within the entrepreneurship field have resulted in calls for more comprehensive frameworks and research. These calls tend to focus on issues of embeddedness, applicability across multiple levels of analysis and the interaction of culture and related institutions with social and economic structures. In response to such calls, we argue for the development of a larger systems view of entrepreneurship where entrepreneurship is placed within the context of the larger social system. We take as our point of departure Talcott Parsons’ systems theory (Parsons 1953; Parsons and Smelser 1956). In this social theory largely overlooked by entrepreneurship scholars, to date, Parsons developed an analytical framework comprised of four key functional imperatives found in every social system - adaptation, goals, integration, and latent pattern-maintenance, otherwise known as the AGIL framework. With the development of this framework, Parsons sought to draw links between the system level structures and individual level social action. As a contemporary of Schumpeter and others interested in economic growth in the early to mid 20th century, Parsons specifically addressed the role of entrepreneurship in the overall functioning of society. This systems model further lays out a framework for better understanding the embedded character of entrepreneurship within society and the economy – i.e., relationships among economic, cultural, and social processes.

In the next section, we present our logic of selecting Parsons’ Framework. We do this by discussing Parsons’ ideas in the context of the work of his contemporaries. We debate that Parsons was able to address most of the important and controversial questions that were being looked singularly or conjointly by other theorists. We then present Parsons’ AGIL framework, describe his definition and location of entrepreneurship within his multilevel system model of the economy and society. We then look to recent developments in theorizing entrepreneurship, especially institutional economics and economic sociology, and discuss the advantages of Parsons’ systems view for the study of entrepreneurship within the context of this current theory and research. In the process we challenge the AGIL framework on several levels and offer a set of testable propositions that we hope will guide future research.

**WHY PARSONS?**

Parsons was able to provide answers to most of the tricky questions related to the field of entrepreneurship by using his framework. He was a systems theorist and hence he situated entrepreneurship in the wider context of society. By embedding entrepreneurship in socio-economic context, he was able to visualize things holistically avoiding the regress of atomistic view. This holistic systems view thus became popular with other theorists (like Barnett, Cole, and Barnard) as well. However, more popular among scholars in management and economics is the work of Schumpeter who restricted consideration of entrepreneurship as an economic activity only. Schumpeter’s approach provided deeper insights to the economic dimension of entrepreneurship, however it constrained the broader understanding of entrepreneurship, preventing the growth of our understanding on some of the vital questions in the area.

Schumpeter considered that innovation is the key outcome of entrepreneurship and is done with an economic objective. This approach prevented many scholars from taking into account other non-economic dimensions of entrepreneurship. Parsons, Cole and Barnard took a broader approach by stating that entrepreneurship and innovation can be non-economic. Parsons, however, went a step further by valuing not only successful innovations
but also failed innovations. For him, any kind of innovation with whatever outcome will have an impact on the system at large and in turn will get influenced by the system.

Schumpeter considered that innovations are disruptive and they come out in spurts. His conclusion is based on the cross-sectional consideration of time and only economic impact of the innovation. On contrary, Barnett studied longitudinally and came up with a conclusion that innovations are continuous process and thus tend to flow into the society. By placing innovation within the society (rather than just economy), he linked innovation to the cultural heritage and prior knowledge of the community. Parsons does not take any stand in the nature of innovation (i.e. whether disruptive or incremental). Since he links innovation to wider society in which change is constantly happening, he too talks about ‘flow of innovative activity’. Parsons however mentions about the community practice of integrating an act of innovation, which depends on the nature of innovation.

Cautious and holistic approach shown by systems theorists also helps in dealing with the misunderstanding on the role of entrepreneur. Schumpeter’s theory is agent centric; hence he placed much focus on innovation and finding an opportunity as the principle role of entrepreneur. This is understandable for his emphasis on entrepreneurship as an economic activity. Parsons too accepts the role of entrepreneur as suggested by Schumpeter; nonetheless he does not consider it as the primary role for entrepreneurs. He perceives, integrative act to be the most important objective for entrepreneurs. By this observation, Parsons is able to account for both the situations: creating an opportunity and finding an opportunity. This approach is also able to fully capture ideas of other theorists (like Cole and Barnard). Cole considers that innovation can be brought about jointly (i.e. subordinates and top management teams) in an organization, but integration of resources is the work of top management team only. For Cole, this integration is brought about by effective decision-making, which thus becomes important aspect of entrepreneurship. Barnard lays emphasis on leadership aspect in entrepreneurship that is responsible for contriving, discovering and promoting. Whatever be the case Parsons’ entrepreneur is able to fulfill all the role requirements characterized by different theorists. Integrative act involves creating/discovering an opportunity and bringing resources together to implement it, all of which requires leadership and decision-making.

PARSONS’ SYSTEM THEORY OF THE ECONOMY AND SOCIETY

Inspired largely by the works of Durkheim, Weber, Marshall, and Pareto, Parsons’ action theory was designed to integrate theories of social action and social structure, with a particular interest in developing a view of how social systems work towards a state of integration and cooperation – a more or less effective state of equilibrium in classic economic terms. Early in his career, Parsons focused on describing action at the individual level and it was at this time that he first developed his basic functional framework, popularly referred to as the AGIL framework in the field of Sociology. We begin in this section with a brief review of the AGIL framework and its application to the case of entrepreneurship. Figure 1 offers an illustration of the basic schema.

According to Parsons, every social system (or organization) faces four basic functional imperatives – Adaptation (A), Goal Attainment (G), Integration (I) and Latent Pattern Maintenance and Tension Management (Latency- L). Here, we briefly describe Parsons’ specification of these four key functional imperatives. Central to Parsons’ system theory is the universality of this four function model. Every social system, simple or complex, faces these four functional imperatives. The ways in which a given social system will manage and coordinate the means of satisfying these imperatives, however, will vary depending upon the size and level of complexity of the system, upon the demands of the environment and the goals developed with regard to how to best (or most properly) relate to the environment, and finally upon the effectiveness and requirements of the other functional imperatives. Each system is further divided into four functional subsystems and each subsystem may further be divided into the same four conceptual functions and so on down levels of analysis. 1 Inherent in this systems view is the constant presence

1 One exception to this multilevel functional division of labor concerns the latency or cultural system. The latency subsystem (L) cannot be atomized completely in terms of sub-functions to be considered in isolation to the broader latency system. The rationale on this point is that the latency sub-system maintains value patterns that are socially and culturally embedded and that cannot be atomized (Parsons and Smelser 1956: 69). The cultural value system of a society is more or less integrated and so the ‘value’ pattern subsystems of that society are still part of the general value system of the total society.
of environmental pressures and the tensions, or conflicts of interest, between the various functions within a given level of analysis, and also across levels of analysis. Each of the functional sub-systems in any particular level of analysis is thus characterized by three essential elements: inputs, outputs and transformation processes occurring within the unit. Following we explore Parson and Smelser’s (1956) application of Parsons’ basic systems model to the case of the economy and society, where they identify the functional role that entrepreneurship plays within society.\(^2\)

In Parson and Smelser’s (1956) application of this general theory of action systems, the larger Society has four key component parts — the Economy, the Polity, the Community, and the Fiduciary sub-systems (Ritzer, 2000). The primary function role of the Economy (A) is the adaptation to, or, of the environment through the organization of labor and the resulting production and allocation of goods, in order to generate utility, income, and wealth. As such the Economy helps Society to adapt the environment to its own needs and/or to adapt Society to the environment. The main functional role of the Polity (G) is to set goals and to make available and mobilize the necessary resources to attain these goals. In most societies, this role is filled by the government--with aid, more or less, from leaders of key social institutions, such as business and the military. The legislative branch of government, in particular, plays a key role here. The main function of the societal Community (I) is to manage and coordinate the other systems through various forms of social control (e.g., coercive, normative, persuasive). In this sense, community actors help to regulate the tensions among the various functional imperatives. The key social institutions that primarily serve this function include the media, education, religion, the judiciary and law enforcement. In other words, this system is about public opinion, community consensus, social activism, and systems of social control. In terms of the economic system, for example, the community is the main source of consumer demand. The Fiduciary sub-system (L) is responsible for maintaining the institutionalized system of values, or, the cultural system (Parsons & Smelser, 1956). The cultural system was of fundamental importance in Parsons’ general theorizing. In this system, institutions, primarily the family and other members of close personal networks (even schools in some instances) are responsible for the transmission and maintenance of the cultural order and systems of meaning and the renewal of motivations.

Entrepreneurship and Innovation (A\(_i\)) appear at the next level of analysis as a component part of the Economy (A). The other three functional components of the Economy include Capitalization and Investment (A\(_a\)), Production and Distribution System (A\(_d\)), and Economic Commitments and Investments (A\(_l\)). Within the Economy, the Adaptation imperative is filled primarily by the Capitalization and Investment system. According to Parsons and Smelser (1956), this functional system involves the allocation of consumable resources for further productive use and, ultimately, for consumption. More specifically, the Capitalization and Investment system is related to the control over, and creation of, capitalized resources, but does not refer to the raw materials of production or to the processes of speculation and trading on the stock market (arbitrage and, perhaps, some instances of rent-seeking). The creation and control of production capital and investment provides the economy with the means to pursue its goal by either adapting the factors of production to the demands of society or by adapting society to its requirements.

The Goal Attainment imperative within the Economy is met by the Production and Distribution System. The main goal of the economy is to provide goods and services for consumption by individuals or organizations. The system of Production and Distribution is the primary means by which this goal is attained. The goal setting here involves the constant assessment and accommodation of consumer demands and other contingencies, which by necessity often involves the manipulation of production goals themselves. The Latency function in the Economy involves the cultural values, norms, and ideals (economic value commitments) that provide the motivation of economic participants to cooperate with the goals of the system. Consequently, it is involved in the renewal of motivations and the transmission and maintenance the cultural system as it pertains to the Economy through the creation and regulation of institutionalized routines and communities of practice.

**KEY THOUGHTS**

\(^2\) We encourage you to read Parsons and Smelser (1956) to understand in detail how their framework works at multiple levels and what elements constitute each level. Here we attempt to simply demonstrate the application of the framework at multiple levels, while focusing on only certain elements of Entrepreneurship and Innovation (A\(_i\)) within the Economy (A).
Inspired by the works of Durkheim, Weber, Marshall, and Pareto, Parsons’ made a significant theoretical contribution to economic sociology in the early to mid 20th century. His overall theoretical goal was to integrate theories of personality and social structure. Economic and social theories of the time and of today seek to map the same connections between individual actors and social structures. In this section we discuss the contributions of various theories and perspectives from before, during, and after Parsons’ time in terms of the key thoughts that we contend Parsons’ theory offers the study of entrepreneurship.

Multi-level Framework: Principle of Interdependence

Early in his career Parsons’ theoretical focus rested on social action at the micro-level. It was at this point that he developed the AGIL framework. It was later in his career that he shifted his attentions to the macro-level. The key point worth noting here is that, for Parsons, systems exist at all levels of analysis. Each system (whether we are talking about an individual, a firm, an industry, a region, or a country) is embedded in a set of functional relationships within an overarching system and exists in an environment containing other systems. Actors/systems are further embedded in distinct cultural and institutional contexts that define and assign these functional roles. In this sense, Parsons’ systems theory really laid the foundation for modern theories of institutional and structural embeddedness.

This idea that actors are embedded in social, cultural, and material systems is not a new idea in entrepreneurship studies, but most theoretical developments have been fairly recent. Resource dependencies theory, for example, clarified the importance of the competition with other actors for scarce resources (Pfeffer and Salanacik, 1978). Population ecologists further extended this general theory of the influence of environmental context on entrepreneurship outcomes with a special focus on population characteristics, such as age, size, density, etc., on the odds of survival and success for new entrants (Hannan & Freeman, 1977; Aldrich, 1979; Aldrich 1990). This research has been particularly well received in management in the sense that good business strategy requires a keen read of the competitive environment.

To this extent, community ecologists have looked at the importance of other actors as resources for business survival and success (Astley & Van de Van, 1983; Astley, 1985). Businesses rely on a number of different relationships – with customers, suppliers, advisors, investors, service providers, government agencies, and other stakeholders and partners in both business and the community -- to survive and succeed. This perspective is particularly relevant for studies of high-growth businesses where assumptions of atomistic self-direction and the meritocratic belief in the potential of cutting edge innovations tend to disguise the importance of smaller players and the complex relationships between markets and niche spaces. Along these lines, attention has turned recently to the importance of regional or entrepreneurial capital (Audretsch & Keilbach, 2004). This research argues that not only is innovation more likely to arise in environments rich in such entrepreneurial capital, but that when they do they are more likely to be successfully commercialized or transferred to the marketplace.

As Parsons’ theory argues, the growth in size and complexity of markets and business communities has led to a functional division of labor that has produced unavoidable interdependencies. All businesses today rely on partners throughout the supply chain and in the larger community, or, marketplace to help them conduct business on a day-to-day basis. Regions or communities interested in promoting economic growth must make investments in infrastructure and the local market in order to produce the conditions ripe for high-growth businesses. In this sense, economic development feeds economic growth as much as economic growth is thought to lead to economic development.

This notion of the embeddedness of actors has been particularly well developed in institutional and network theories in sociology and economics. Economic sociologists have demonstrated the extent to which network structures at both the individual and firm levels contribute to the outcomes of innovation (Burt, Uzzi). Organizational sociologists have (Meyer and Rowan, DiMaggio & Powell) have further mapped out the ways in which institutions serve as the means by which culture structures and regulates the environment in which entrepreneurial action takes place. Institutional economists have further explored the ways in which particular values and beliefs are linked to the emergence and governance of institutions (i.e., the rules of play) that comprise the institutional context in which actors compete for and share resources (North, 1990; Baumol, 1990).

Much of this work on institutions and entrepreneurship tends to take a top down approach. The assumption inherent in this work is that actors are actually constrained by macro institutions. This problematic assumption also
characterizes Parsons’ systems theory, critics have suggested, insofar as individual actors tend to be viewed as cultural dummies, easily manipulated by culture and institutional structures. The counter argument with regard to Parson’s theory is, of course, that Parsons actually assumed a lack of cooperation among actors because of the divergent interests produced by functional specialization. Cultural systems and institutional structures are, thus, necessary in order to coordinate and manage the actions that result from these divergent systems. The cultural challenge for every system is to constantly create and reproduce systems of shared meanings and institutions that support and enforce the reproduction of these institutional structures, in the best interests of the organization. In Parsons’ theory, however, actors are organic systems themselves filled with their own internal tensions including interests in adapting their circumstances to their own needs as well as sometimes adapting to their environment. In this way, actors/systems are conscious, goal-directed, even strategic. We see evidence of a similar perspective among some institutional theorists as well. Harper (2003), for example, has proposed links between cultural values and institutions at the country-level and entrepreneurial characteristics, like self-efficacy, at the individual-level. At the firm-level, Whitley (2006) has looked at the fit between business strategy and the institutional contexts of national economies.

In contrast to much of the sociological theorizing we see today, Parsons’ systems theory is actually highly strategic. Not only is this social theory highly agentic—it is after all describing an action system—but it also offers a way of thinking about the concerns that must be or, can be, strategically managed and coordinated in any action system in ways that create a competitive advantage for a given actor/system. It is important to remember that, for Parsons, systems exist at multiple levels of analysis. Consequently, the AGIL model can be applied to individuals, firms, organization, industries, regions, countries, and so on. All these actors are embedded in a system of functional and cultural roles that constrain or liberate and that are tied to a specific set of interests.

The most effective way to realize the effectiveness of the Parsonian framework is to assess its usefulness on the basis of its ability to handle the scope of entrepreneurship. We do so by taking examples of entrepreneurial action and try to analyse them within various context by making use of Parsons framework.

Let us take a situation where we set the context at macro level (say, society)- for example, analysis of the emergence of many new ventures in ‘pharma’ sector (leading to a vibrant pharma industry) in India after 1970s. The reasons that can be attributed for this to other sub-systems of the ‘social system’ are – 1) favourable government policies as 1971 Patents Law of India allowed only process patents, so companies were able to reverse engineer and come-up with drugs at cheaper price (Polity- G); 2) huge population with so many diseases meant a big market, but it had to be cheaper drugs because of very low per capita income and low government spending on community health (Tension management- L); 3) funding available by Public Sector Banks (Economy- A); and 4) availability of expertise in the field of chemistry or chemical-based industry meant that this opportunity can be made good use of by integrating all the said factors i.e. a market need, a favourable government policy, and available resources (Integrative- I).

Now we take an example where the proposed framework by Parsons could be applied to understand the activities undertaken by entrepreneurs during the new venture creation process (i.e. micro-level analysis). This approach is useful to systematically study firm formation or to understand decisions that have been instrumental in the evolution of a firm. As mentioned earlier, one can better understand a decision taken in any stage during the formation and evolution of a new venture by placing it within the context. Thus, by establishing the ‘boundary interchanges’ it is feasible to deeply probe and correlate ‘why,’ ‘what’ and ‘when’ of a decision at various levels. We take a hypothetical example to explain this- A biotechnology new venture has a novel platform technology based on which it has two projects for two different drugs. The ‘economic rationality’ states that the new venture brings both the drugs to market by itself for maximum profit. The major VC investor of the company feels it’s improbable to achieve this without further fund raising because of unforeseen over-expenditure and delays. So, a decision is made to raise fund by licensing one of the partially developed drugs to a potential competitor that is cash rich but lacks a new product. The idea of an IPO is considered but not taken further then as the stock market has little interest in new biotechnology offerings. By ceasing the “opportunity [to innovate]” to license one of its potential drug (A日本人) ‘guarantees the existence of the enterprise’ (A日本人) as it leads to “guarantee of liquidity of securities” (A日本人) resulting in “procurement of facilities” (A日本人) to successfully develop the second drug. This also reflects their “commitment to productivity” by raising this money (to atleast develop their second drug) (A日本人) by ‘procurement of needed resources’ (A日本人) even during setbacks i.e. fast depreciation of resources because of unseen circumstances. The
rationale driving this decision is thus based on their “commitment to planning” ($A_L$) to ‘co-ordinate future production’ ($A_G$). ³

With Parsons framework, one can also analyze a single factor at various different levels. For example, if one were to look at ‘motivation’ (L) for the start of an enterprise, it can be done at two levels: firm (an economic entity) as the unit of analysis or the entrepreneur- a social being as the unit of analysis. So, in the former case the frame of reference will be the ‘economy,’ while in the latter case it will be the ‘society’ at macro level, the ‘family of the entrepreneur within the concerned society’ at meso level, and the ‘individual within a family/ institution in a society’ at micro level of analysis (socio-psychological perspective).

Nature of innovation

Theory and empirical research on innovation in entrepreneurship field typically focuses on three questions – the nature and types of innovation, sources of innovation, and the definition of entrepreneurship as innovation. Much of the current thinking on the topic of innovation revolves around Schumpeter’s significant contributions to the study of entrepreneurship and innovation. Schumpeter, of course, was a contemporary of Parsons. Not only were they both at Harvard University during in the same period, but they studied similar topics and shared similar views of the role of entrepreneurship and innovation in the development the economy and society. The influence of Schumpeter’s definition of entrepreneurship as a primarily recombinatory effort is apparent in Parsons and Smelser’s (1956) description of the Entrepreneurship and Innovation subsystem, for example. The goal of this functional system, in fact, is to achieve and apply new combinations of the factors of production in order to help the Economy to best serve its adaptation function for society.

The Economy, of course, in Parsons’ systems theory is also a self-equilibrating system. Parsons based this view of the Economy on classic economic theory where the role of the entrepreneur in the economic system was generally viewed as a force propelling the system towards equilibrium. In other views, however, entrepreneurs were viewed as a force of singular progress, driving the system ever forward toward higher levels of efficiency and productivity, thus producing an ever-shifting equilibrium point. Parsons and Smelser (1956) never really took a stand on this point. But then, one could argue, that Parsons’ general model of functional imperatives and subsystems, each with their own set of functional imperatives and subsystems, allows for the idea of a specialized division of labor where some parts are designed to offset the effects of other parts.

In entrepreneurship studies today, there is a clear debate over the source and effect of innovation and opportunities within the economy. Some scholars follow a market process or entrepreneurial discovery view of innovation and market opportunities, wherein opportunities for innovation and entrepreneurship exist and simply await discovery (Kirzner, 1973; Shane, 2003; Harper, 2003). This view is based on the understanding that equilibrium is unachievable and, therefore, there are always market inefficiencies to be met. Also central to this view is the idea that innovations are, therefore, incremental by nature. The contrasting perspective to this view is the Schumpeterian perspective where innovations represent completely new forms of production and are, therefore, potentially transformative by nature. The result of such transformative technologies may be a complete shift in the hypothetical equilibrium point, rending existing technologies and products obsolete and creating entirely new markets.

Again, Parsons and Smelser (1956) do not take a clear position in this debate, per se. However, the system theory model more generally does tend toward an evolutionary view of economic and social change. Severely disruptive technological change is typically not in the best interests of the system, especially if the cultural and institutional structures in place are not design in ways that allow for the absorption of such transformative change throughout the system. Rather, we argue, that transformative change is really more of a hindsight call. Internet is perhaps the best example in recent times to be labeled as a revolutionary technology that changed the world. The decade of 1990 was

³ As suggested before, readers are encouraged to refer to Parsons and Smelser (1956) to have complete knowledge of various elements present at each level. The Economy (A) has four elements (mentioned before). At the next level, each of these four elements further divides into four sub-elements. So, the Economy has 16 sub-elements at the third level. In this example, we have used only a few elements at the third level (characteristics of which, as suggested by Parsons and Smelser, are shown in single or double inverted commas). The example hence shows how the elements interact with one another to show the functioning within economy and society at large. This also demonstrates the usefulness of the idea of boundary exchanges (mentioned before).
seen as the golden period of dot.coms – companies that had their business model based in internet technology. The popular perception is that it all started with much publicized project on World Wide Web of CERN in 1991 and it suddenly had a disruptive impact not only on the technological front but also on the business (e-commerce) and wider community (communication and interaction in society). However, the reality is different and more nuanced. The technological history of internet goes long back and can be traced to the decade of 1950. It was in 1979 that one observes the first public usage of the technology (to share the news and disseminate information) in University of California, Berkeley. The primitive version of World Wide Web came about in early 1978 and was known as ‘Computer Bulletin Board System’ and its usage spread in bay area in Chicago. To conclude, Naughton (2000) wrote for internet, “Change is thus incessant in normal technology – it just happens in an evolutionary, incremental way.”

In terms of the definition of entrepreneurship as chiefly innovative, again, Parsons’ tended to share a similar view with Schumpeter. For Parsons, entrepreneurship and innovation were key aspects of both the management and coordination of the economy and, perhaps more importantly, economic growth and progress. Related to this debate over the source of innovation and to the definitional relationship between entrepreneurship and innovation, however, is the question of the types of businesses that perform this Entrepreneurship and Innovation function in the economy. This is the question we take up in the next section.

**Purpose of Entrepreneurship as economic growth and profit**

The question of the types of firms most likely to drive economic growth has provoked a lot of research on the most prolific sources of job creation and GDP growth as well as wealth of theory and policy debate concerning the factors that determine which types of firms are most likely to produce growth (van Praag & Versloot, 2007; Baumol, 2004; Carree & Thurik; Acs, 1992). The conditions under which growth emerges from small businesses versus large businesses depends largely on stage of economic growth, the types of commodities or industries in question, the population characteristics, and the institutional conditions that prevail. Less developed economies rely on small businesses to provide most of the products and services needed. As industrialization sets in, firms typically become larger based on systems of mass extraction and production. Then again as globalization sets in and more advanced economies shift to more service-based, or even more recently, knowledge-based business sectors, the average size of businesses shrink (Audretsch and Thurik, 1998; Brock and Evans, 1989; Piore and Sabel, 1984).

The characteristics of particular organizational populations and industries can also play an important part in the size and types of firms that are found there as well. Market saturation and population age and density factors can severely limit the size and growth potential of the member firms (Aldrich, 1997, 1990). Monopoly rule and, conversely, regulations on the business size and form can also place limits on the number and size of players within a particular space (Baumol 2004). And finally, institutional characteristics beyond regulatory requirements or market dominance can also influence the normative size of firms. In some industries and some cultures, small is beautiful and simply the way business is done. The findings on this question of whether economic growth is driven more by small or large firms is, in sum, mixed for a long list of reasons (van Praag & Versloot, 2007).

Schumpeter, for one, also apparently faced some confusion over the types of firms most likely to produce the type of innovations and entrepreneurial leadership most likely to drive economic growth. Early in his career, living in war-torn Europe, Schumpeter really saw small firms as the key source of economic growth, but later in his career, during the mid part of the 20th century in the US, he adjusted his earlier thinking and argued that innovation and growth is really driven by larger firms. This adjustment is hardly surprising, of course, given the shift in context from a struggling Austrian economy to a mostly thriving American economy populated with increasing large manufacturing companies.

Parsons and Smelser (1956) again do not take a position on this point. Entrepreneurship and Innovation is simply a functional imperative that must be met for both the Economy and Society to survive and succeed. The type of firms that take on the role is, in this sense, contingent upon the (functional) needs and (cultural) desires of the system. To this extent, then, Parsons’ system theory holds out the potential for both small and large, young and old, firms to fulfill this function with the simple qualification that whichever types of firms end up there will depend upon the requirements of the marketplace and the customs and expectations of the Economy and Society.

Penrose (1959) seems to have had an excellent grasp of the role of small firms in economic growth. She argued that small firms exists for four reasons: (1) some activities are more suited to small firms (2) some industries have low
entry barriers and see many new/small firms emerge each year (3) sometimes large firms allow small firms to exist for PR reasons, as in response to social values against monopoly and other dominance behaviors; and (4) under certain conditions as in periods of high growth, large firms cannot meet all the market needs so small firms can emerge and survive as long as large firms allow them to.

Much like Parsons’ systems perspective, this work reflects hallmarks on the organic, naturalistic, or evolutionary view of organizations and their environment. Like Penrose, Parsons also had a good sense of how relations of power and dominance also figure in patterns of entrepreneurship and economic growth. Nowhere is this issue clearer in entrepreneurship studies than the bias towards particular types of businesses and entrepreneurs as the likely sources of high-potential, innovative, high-growth firms. The field of entrepreneurship has long shown a particular fascination with high-technology firms and focused much of the trend watching activity in business schools on these sources of potentially transformative and wealth-creating businesses. The problem with this tendency is that other viable sources of sustainable, scalable, innovative business ideas tend to get ignored. On the one hand, it just makes it more interesting to see the surprises pop out from unexpected quarters. On the other, the legitimizing forces of this bias skew the allocation of resources towards these idealized high-tech gazelles. At the firm-level, population ecologists and institutional theorists have further elaborated on this view, most often in the context of monopolistic tendencies of large firms in older industries with regard to control of the terms of play and the allocation of resources. This phenomenon is linked to the liabilities of newness and smallness that work against small businesses as successful drivers of entrepreneurship and innovation. At the individual-level, we see similar expressions of cultural power and dominance in differential access to capital among businesses owned by women and minority groups, such as immigrants and ethnic minorities. Much of this differential access is attributable, in fact, to business characteristics and industries which speaks directly to the point that resource allocations within the economic system are differentially directed towards certain industries and business types of others. This stratification and inequality issue has important implications for the system as a whole.

CONCLUSION

One of the biggest challenges for sociological theory in the field of entrepreneurship studies concerns its value for business practice and policy making. In the typical sociological effort to delineate the characteristics of the relationship between individual actors and their surrounding environments, the take-away point for those interested in making strategic choices and taking strategic action within a system of constraints and opportunities tends to get lost. In Parsons’ system theory, we see something different. We see an opportunity to develop strategic approaches to a more successful navigation of the social system.

Parsons’ system theory suggests that it is imperative not only that a system strive towards at least a minimal level of integration or balance of interests, but also that the system recognize that ongoing adjustments must continually be made in the management and coordination of various functions and resources. In effect, the take away here is that not only will various institutional arrangements have to be constantly revisited and adjusted to allow for changes from within and without the system, but also that the constant negotiation surrounding the nature and direction of these institutions is also to be expected. Additionally, we must expect to see the undue influence of more powerful actors acting in their own self-interests, as opposed to the interests of the system as a whole) and this too must be managed and coordinated in the interests of the system. In terms of the best strategic direction for particular systems faced with particular sets of resources and placed in particular types of environments, Parsons’ systems view offers a simple heuristic framework around which to organize the various priorities and decision-making processes.

Scholars, like Robert Merton, appreciated the intent of Parsons theory and tried to improve upon it by extending the functional view to recognize that the outcomes, like allocation of roles and resources, which are functional for the system as a whole, may, in fact, be dysfunctional for individual parts. The idea that actors come to the practice of entrepreneurship and innovation from different contexts or that different types of entrepreneurs and entrepreneurship face distinct barriers to survival and success constitutes an important area of study in entrepreneurship studies. Groen (2005), for example, proposed a framework for strategic action based on a synthesis of Parsons’ AGIL framework and Bourdieu’s theory of capital. Elam (in press) more recently developed and empirically tested a theoretical framework for the cross-national, comparative study of entrepreneurship, also based largely on Bourdieu’s theory of capital. The basic premise in both of these frameworks is that the likelihood of business start-up, survival and success will vary depending on the contexts from which individuals make choices and act. These action contexts are defined by the resources available to the actors. In Bourdieu’s (1986) model these resources include economic, social, cultural, and symbolic (legitimacy) capitals. A close coupling between these resource sets
and the perspectives or worldviews of the actors is also theorized in this type of modeling and relates very closely to the Austrian institutional view of economic behavior. In this theoretical view, entrepreneurial opportunities are differentially available to actors in a given market because of the information asymmetries among actors (Shane 2003; Hayek). This view has been extended further to include links between particular institutional contexts and the perceptions or worldviews that best contribute to a state of alertness to such entrepreneurial opportunities (Harper 2003).

To sum up, for those of interested in entrepreneurship and innovation as a topic of study, as a distinct approach to the marketplace, and/or as an overly-constrained driver of economic growth, Parsons’ system view of entrepreneurship offers both confirmation and wisdom on the role of entrepreneurship within the economy and society. By defining entrepreneurship and innovation as a key integrative function for the economy, Parsons assigned entrepreneurship and innovation a key responsibility for both solving market inefficiencies and transforming markets and the environment to better serve both the economy and society. We find that his system view of entrepreneurship is very compatible with current theories that focus on the embeddedness of entrepreneurial practice in highly interdependent communities and in institutional contexts. In that sense, Parsons’ system view offers a highly contingent view of entrepreneurship and innovation, allowing that the function may be filled by a variety of businesses forms and entrepreneurs depending on the cultural and institutional context of the system. And finally, we note that Parsons’ systems view also offers an important wisdom on the institutional forces and processes that determine the extent to which, and the ways in which, entrepreneurship and innovation are realized in a given system.

CONTACT: Amanda Elam, amanda.elam@yahoo.com, (T): 919-270-2744; Babson College, Babson Park, MA 02457

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REFERENCES

Figure 1: Parsons’ AGIL Framework

<table>
<thead>
<tr>
<th>Adaptation</th>
<th>Goal attainment</th>
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<tr>
<td>response to or manipulation of external environment</td>
<td>definition and achievement of primary function(s)</td>
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<th>Latent pattern maintenance</th>
<th>Integration</th>
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<tr>
<td>cultural patterns that sustain and refresh motivation for action</td>
<td>oversight and coordination of component parts or functions</td>
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Figure 2: Entrepreneurship as Embedded System

Society

- Economy
- Polity
- Fiduciary
- Community

Economy

- Capital & Investment
- Production & Distribution
- Economic Commitments & Motivations
- Entrepreneurship & Innovation

Entrepreneurship & Innovation

- Financing of Innovation
- New Combinations of Factors
- Resource Flows
- Opportunity for Innovation