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**STATUS INCONSISTENT ENTREPRENEURS
AND ROBERT MERTON'S INNOVATION**

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INTRODUCTION

From where springs forth entrepreneurs? The United States is experiencing an unprecedented increase of entrepreneurs. They have emerged in growing numbers during the past ten to fifteen years (Drucker, 1985), reaching a crescendo in what American Demographics has called the "Entrepreneurial Eighties" (Russell, 1985). Los Angeles Mayor Tom Bradley recently recognized this occurrence by declaring an "Entrepreneur Day" for his city at the annual meeting of the Young Entrepreneurs Organization (Givens and Goldberg, 1986).

What is an entrepreneur? There have been many definitions since the term was coined by French economist J. B. Say in about 1800 (Drucker, 1985). According to Say, an entrepreneur "shifts economic resources out of an area of lower and into an area of higher productivity and greater yield." Drucker says that they exhibit "purposeful innovation" as their principle tool, when making these resource shifts. Yet, in these definitions, as W. J. Baumol contends, this apex figure of the free enterprise society remains "one of the most elusive characters in the cast" (Kanbur, 1980).

Kanbur suggests that there is evidence of a distinct occupation of entrepreneur that finds its origins in 13th Century Europe. The "societas maris" provided for a partnership between the "stans" or investor and the "tractator." The stans provided the capital, while the tractator (entrepreneur) "embarked on a dangerous sea voyage, handled the actual business and took the personal risk of losing life or limb." This occupational distinction approximates Kirzner's (1973) ideal type called the "pure entrepreneur," contrasting the occupation from the entrepreneurial process that is evidenced in varying degrees in the management of business.

The tractator was allowed full independence of judgment in transversing uncharted waters with uncertain crews, requiring the exercise of purposeful innovation to reach the objective and return with the profits. Because of the greater personal risks involved for the tractator, if successful, he would be allowed a greater share in the profits than the stans who provided the capital. Such greater risks, independence of judgment, demands for innovation, and return on effort are not typically attributed to one who simply manages a business. Consequently, entrepreneurs are representative of a special labor market, exhibiting occupational characteristics that are "a world apart from the majority, who are life-time salaried employees" (Wilensky, 1966).

This distinction will serve as a cornerstone in our discussion of the recent entrepreneurial phenomenon.

SCHOLARLY INTEREST

The label of entrepreneur has not always been a respectable title. It was not until the economic troubles of the 1970's that it gained in acceptance as well as growth (Gevirtz, 1984). Conservative Harvard now teaches classes in entrepreneurialism, and sports an active campus organization that promotes this type of business endeavor. In 1976, this would not have been acceptable; in 1983, it was popular (Gazvoda, et al, 1983).

Entrepreneurship as a scholarly interest has a relatively recent history. Economists were first to study this phenomenon, but were later followed by the other disciplines (Greenfield and Strickon, 1981). Economist Joseph Schumpeter developed the first major work that focused on the entrepreneur in his The Theory of Economic Development. Schumpeter saw the entrepreneur as the critical factor in economic development, but failed to identify who they were or from where they came (Greenfield and Strickon, 1981). They were essential to the process of economic growth, yet represented an unknown factor in the equation (Gevirtz, 1984). Most economists have been equally confounded in their treatment of the entrepreneur (Kanbur, 1980).

Social psychologist David C. McClelland reasoned from the conclusions drawn by Max Weber in The Protestant Ethic and the Spirit of Capitalism that some societies socialize their members to have high needs for achievement. Entrepreneurs exemplify the highest achievers. Unfortunately, this theory does not account for those from underdeveloped nations who score high on his need for achievement scale, but predominately choose to pursue fields other than business (Greenfield and Strickon, 1981). Furthermore, it does not account for those who have high needs for achievement, but fail as entrepreneurs.

There are other problems encountered by taking a socialized personality trait approach to explain the existence of entrepreneurship. Case studies of entrepreneurs exhibit vast differences in personality (Gazvoda, et al, 1983). They can vary widely from a reserved, perfectionistic Willis Carrier of air-conditioning fame, to a flamboyant podiatrist-salesman in Dr. William Scholl (Fucini and Fucini, 1985).

Proposing a situational approach that links changing opportunity structures within social settings to the entrepreneurial decision-making process, William Glade offers an alternative view (Greenfield and Strickon, 1981). Simply stated entrepreneurs are those who recognize and take advantage of opportunities that appear in the business environment. Glade's argument is not only circular, but fails to address from where entrepreneurs originate.

In a similar vein, Israel Kirzner (1973) criticizes the economic maximizer and economizer position that alludes to everyone as being an entrepreneur in degree, based upon the decisions they make on the opportunities that come their way. This too is circular, and further lacks any power to discriminate between what Kirzner calls "pure entrepreneurs" and others.

Greenfield and Strickon (1981) attempt an interpretation of the origins of entrepreneurs by developing a "populational paradigm" that is founded upon a "Neo-Darwinian evolutionary view." Taking the evolutionary concept of differential reproduction and using it as a metaphor, they attempt to explain the incidence of entrepreneurs in a population as a result of a successful variation. The variation is social, rather than biological, representing innovative behavior that accomplishes desired goals for both entrepreneur and the population (i.e., is naturally selected in biological terms).

Greenfield and Strickon then offer a cautionary self-criticism. Limitations in their paradigm stem from treating social and biological phenomena as if they were similar, although taken metaphorically. Furthermore, from the standpoint of differential reproduction, all variations that are naturally selected do not necessarily result in the best outcome for the population. Some can lead to stagnation or extinction. We live in a value-laden society. Social selections, unlike biological natural selection, are not value-free. What may be in the best interests of one group, may be to the detriment of another.

In any case, these explanations do not account for the recent upsurge of entrepreneurialism in the United States. Peter Drucker (1985) contends that economists, as well as other theorists, have failed to provide a reason for this profound increase in sheer numbers of entrepreneurs. It is a phenomenon begging for an explanation.

DEMOGRAPHICS

The number of new business formations that occur during the course of a year can serve as a gross and somewhat unrefined indicator of entrepreneurial activity. In the 1960's, new business formations averaged about 180,000 per year (Gevirtz, 1984). Beginning with the 1970's, there has been a steady increase in this average, reaching a dramatic 600,000 new business formations for the 1981 year (Drucker, 1985; Gevirtz, 1984). This represents a 333 percent increase in just 11 years.

These new business starts cannot be attributed to diversification of market interests by the Fortune 500 companies (the largest 500 companies in the nation). To determine this, we turn to another unrefined measure of company growth - the demographics of permanent domestic jobs. Permanent domestic jobs with the Fortune 500 companies have declined by about 5 million for this period, beginning slowly around 1970, and dropping more rapidly since 1977 (Drucker, 1985; Gevirtz, 1984). Gevirtz implies that these losses in domestic employment do not indicate a decline in the Fortune 500, but rather that they are exporting jobs overseas or across the southern border to take advantage of cheaper labor.

In spite of the domestic employment decline by the Fortune 500, during the same time period the United States increased permanent domestic employment by 40 million jobs, with 35 million being new. Drucker (1985) attributes this domestic increase to small and medium-sized businesses, the majority being newly formed during the time period.

Another unrefined indicator which may suggest an increase in entrepreneurial activity (and entrepreneurs) is an increase in domestic nonfarm self-employment. American Demographics reports a 45 percent increase in self-employed from 1970 to 1983, representing a rise of 2.4 million. They further report that nonfarm self-employment has continued to grow at 2.7 percent annually during the 1980's, despite the recession of 1981-1982 (Russell, 1985).

Drucker (1985) admits that he is unable to account for the rapid growth in the number of entrepreneurs, but suggests that there may be noneconomic causes, perhaps attributed to changes in demographics, education, or perceptions.

Educational attainment in the United States has shown a substantial increase since 1970 when only 11 percent had a college degree. American Demographics reports that 20 percent of the population are now degreed, representing over an 80 percent increase in attainment in just 15 years (Russell, 1975). Hazel Reinhardt (1979) in "The Ups and Downs of Education" and "Educated Men" in American Demographics (Russell, 1984) suggest that part of this increase could be explained by the Vietnam War of the 1960's and early 1970's, where college deferments from military service encouraged attendance, as well as providing for educational benefits to those who returned from war to college in greater than peacetime numbers.

As a result, attributed largely to the "Baby Boom" of 1947 through 1964, college enrollments have grown from 3.6 million in 1960 to 11.4 million in 1980, representing over a 300 percent increase in 20 years (van der Tak, 1982). This rapid increase in total numbers of college students has been referred to by Drucker (1985) as the "education explosion," and may have some relationship to the rise in entrepreneurs.

The Population Reference Bureau reports that educational attainment and domestic employment are at all time highs. But because these Baby Boomers are both preceded and followed by substantially smaller cohorts, social and economic problems are anticipated (van der Tak, 1982). According to Leon F. Bouvier of the Population Reference Bureau (1980):

Many have entered the labor force, only to discover that there are not enough suitable jobs to go around. Once employed, they will earn less relative to older workers than young workers normally do.

Furthermore because a disproportionately large number will enter peak employment years, chances for advancement in traditional careers will be both highly competitive and restricted.

Bouvier further contends that the surplus of Baby Boomers will increase the scarcity and drive up the demand for housing, along with consequent increases in housing prices. Thus, the relatively less than expected income will be further eroded by increasingly expensive housing costs, presenting the option of occupying less than desired housing.

STATUS INCONSISTENCY THEORY

George Homans defines status as the perception that persons have for one of their fellows based upon the recognition, discrimination, and rank-ordering of stimuli that that fellow presents to them and to himself. The stimuli or status characteristics are relative to those presented by other persons, becoming symbols of comparison, and ranked as relatively better or worse, higher or lower (Homans, 1961). Examples of status factors introduced by Homans include education, occupation, income, residence, religion, group affiliation, marital status, social origin, race, age, and sex (Malewski, 1966).

This follows the symbolic interactionist approach of Cooley and Mead which defines the self as a product of interaction with others. In the development of his "looking-glass self," Cooley further makes the distinction between the effects of actual appraisals of others and how the individual perceives the appraisals of others, stressing the greater importance of the latter (Schafer, 1985).

Status inconsistency, which was suggested in the work of Max Weber and developed by Gerhard Lenski has been defined as, "the occupying of disparate ranks on various dimensions of status" (Baer, et al, 1975). People tend to link certain status factors to others to form normative expectations, and when they perceive divergence in this linkage by someone, they respond in ways affecting their relations with that person. This in turn affects the way that person responds to these other persons and the way they perceive themselves (Malewski, 1966).

Behavioral and attitudinal consequences are assumed to follow status inconsistency because the holding of disparate ranks is said to produce dissonance in the individual (Baer, et al, 1975), varying with the degree of inconsistency of status characteristics from normative expectations (Malewski, 1966). Dissonance creates strain for individuals, motivating them to decide on actions designed to reduce dissonance (Baer, et al, 1975; Geschwender, 1970).

The forementioned dramatic changes in demographics and educational attainment serves to increase the potential for a more substantial proportion of the population to experience cognitive dissonance arising from the occupying of disparate ranks. For example, the great surplus of Baby Boom college graduates are faced with decreased opportunities to achieve status consistent occupations, incomes, and residences.

In addressing the status inconsistent factors in our discussion, Geschwender (1970) states that:

A person who is high in education and low in occupation and/or income might hope to reduce dissonance through hard work, individual effort, and mobility on the occupational and/or income dimensions.

But what happens if the normally resorted to institutional means for mobility (salaried employment) are restricted or perceived as closed due to the effects of the Baby Boom?

INNOVATION

Robert Merton (1963) has proposed "innovation" as an individual mode of adaptation to "inconsistencies in culture." Innovation specifies the type of role behavior that could occur when cultural goals are accepted by the individual, but institutional means for achieving these goals are restricted or closed. There is extensive agreement by authors that innovation is the primary tool of the entrepreneur (Cole, 1959; Dailey, 1971; Drucker, 1985; Gevirtz, 1984; White, 1977).

When the usual channels of vertical mobility deny access to the "success-goal" of economic affluence, the innovator exhibits a readiness to take risks by introducing a new variation in method to achieve the culturally desired goal (Merton, 1963). The "risk taker" often exhibits what Howard Stevenson of Harvard calls "that creative spark which somehow gets around administrative procedures" to reach the desired end (Gazvoda, et al, 1983). The entrepreneur becomes the master cutter of "red tape."

Innovations vary in degrees from the approved or accustomed way of doing things, often drawing both praise and condemnation from critics. Merton finds the distinction between innovative "business-like striving" and criminal deviance sometimes difficult to make when observing some types of innovation at top economic levels. He draws reference to the famous "Robber Barons" of American heritage, where their shrewd successes were given reluctant and private admiration by an American populace. To this day we can observe the same ambivalence in the public as they faithfully watch years of the weekly television series called "Dallas." The modern day fictionalized Robber Baron character of "J.R." exercises his version of innovative entrepreneurship in this series, and has become an American household celebrity of famous (infamous?) proportions.

Merton contends that it is the social structuring of these cultural inconsistencies between extolled goal and restricted means that encourages innovation. In a rigidified caste order, such strivings would not be prevalent.

Drucker (1985) has observed that innovative sources of opportunity for business are signaled by the existence of "incongruity: "An incongruity is a discrepancy, a dissonance, between what is and what ought to be. Entrepreneurs are seekers of these incongruities, in that they present an opportunity to innovatively "build a better mousetrap," and thereby derive profit from what others would perceive as an obstacle. Could this entrepreneurial attitude find its origins in the dissonance experienced earlier by status inconsistent victims who have successfully mastered Merton's adaptive mode of innovation?

THE ENTREPRENEURIAL EIGHTIES

It is the thesis of this paper that the answer to the question "from where springs forth entrepreneurs?" can be found in the cultural inconsistencies that encourage innovation. It is a cultural virtue to be financially successful and upwardly mobile and to possess the status characteristics consistent with this virtue. But the structure of the economic institutions of our

society greatly restricts this mobility by limiting access to the approved means for advancement.

When attempting to achieve upward mobility, a large segment of our population has successfully followed one of the prescribed means for advancement by improving their education (e.g., obtaining a college degree). But when attempting to access the other means prescribed, they have found them to be restricted, closed, or of short supply in relation to their numbers.

Popular rock singer Billy Joel has voiced this realization of this cultural inconsistency in his song called "Allentown:"

We're living here in Allentown,
But the restlessness was handed down,
And its getting very hard to stay...

Well, we're waiting here in Allentown,
For the Pennsylvania we never found,
For the promises our futures gave,
If we work hard, if we behave...

So the graduations hang on the wall,
But they never really helped us at all...

They are forced to take occupations, receive incomes, and occupy residences that are inconsistent with their advanced education status.

A large number of these graduates find themselves occupying disparate ranks on the various dimensions of status, experiencing stress as a result of dissonance, and looking for alternative modes of adaptation to reduce this stress. Some discover Merton's mode of innovation and emerge as entrepreneurs - they still accept the cultural goals, but innovate their own means. They take risks and become self-employed or found a business enterprise that allows them to attempt the mobility that was not accessible by working for others.

The eighties have become the era of entrepreneurialism as a result of the inconsistencies in our cultural institutions being exacerbated by the dynamics of the Baby Boom and the massive "education explosion." We now are experiencing the march on the Bastille of traditional institutionalized economics by the entrepreneurs of the eighties. Their effects on the American economy and its way of doing business will be as revolutionary and profound as were the effects on the French empire by Gustave La Bon's over-educated crowd. But they are different in their means of revolution: they are entrepreneurial innovators.

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