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ENTREPRENEURSHIP AND THE VARIETIES OF CAPITALISM PARADIGM

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Introduction

Throughout most of the 20th century, scholars debated the competing merits of capitalism and socialism as alternative ways to structure social, economic, and political life. With the collapse of communism in the late 1980s, this discussion was laid to rest and a new debate surrounding alternative forms of capitalism emerged. Scholars in this new tradition argued that steps forward in the field of comparative political economy were to be achieved by explaining how "different legal, political, and social institutions [within the capitalist tradition] shape economic behavior and impact economic performance" (Boettke, et. al., 2004). For instance, some scholars like Barkley Rosser and Marina Rosser observed that the "substantial systemic differences" along a variety of dimensions between economies seemed related to their economic performance (Rosser and Rosser, 2008).

Of particular interest in the new comparative political economy is the Varieties of Capitalism literature. This literature has gained widespread attention in the fields of economics, business, law, political science, and sociology. Several models of capitalism—most notably the Anglo-Saxon, Rhineland, and Developing world models—serve as conceptual frameworks explaining economic performance. A summary of two of these models along the lines of the three main actors involved in the state-societal interactions (state, labor, and capital) is in order. First, the Anglo-Saxon model—found in the United States and the United Kingdom—is broadly characterized by the state confining itself to a minimalist economic role (with obvious exceptions during certain short historical periods); labor is characterized by high levels of fragmentation and heterogeneity at the national level; and short-term business profits serves as a prominent incentive in a strongly market-oriented model (Cernat, 2006: 15). In juxtaposition, the Continental European or Rhineland model has several divergent characteristics. This model is characterized by close coordination between the state, trade unions, and industry associations. States play a more active role in the economy, labor is much more organized and serves as a key actor in decision making, and business is characterized by a more long term perspective (Cernat, 2006: 17).

The case developed here follows a line argument that highlights a fundamental oversight within the Varieties of Capitalism literature: No attention is paid to the varieties of firms. Because the Varieties of Capitalism literature assumes that the strategic preferences of firms are a function of their institutional environment and that institutions are spread more or less evenly across the firms within the same national political economy, variation in firms have been deemed more or less irrelevant (Allen, 2006). All firms are presumed to adhere to the ideal type of firm for the political economy in question (Allen, 2006).

My paper contributes to this discussion by arguing that the absence of an analytical framework that accounts for the differences between firms in the Varieties of Capitalism paradigm warrants some more consideration. I argue that variation in firms can be explained as a function of the diverse modes of action chosen by entrepreneurs through the acquisition, combination, and recombination of resources in the economy to exploit profit opportunities.

The paper is organized as follows. First, I review the theoretical literatures associated with the discussion at hand. Second, I consider the implications of my argument for a discussion within the Varieties of Capitalism paradigm. Third, I reflect on the policy implications of the insights developed.

Theoretical Considerations

The publications in the Varieties of Capitalism field concern both the appropriateness of different national economic systems and the likelihood of institutional convergence (Hall and Soskice 2001; Coates, 2000; and Berger and Dore, 1996). The main contention of these publications is that national economic frameworks lay the foundations for comparative advantage. Peter Hall and David Soskice, for example, make the argument in their edited volume that firm strategies are strongly dependent on the national institutional framework and that there is really only one way for them to be successful in certain product markets (Hall and Soskice, 2001). The Varieties of Capitalism literature further assumes that firms adapt their strategies and structures to the national institutional framework to become either a "radical innovator" or "incremental innovator" depending on their economy. Finally, it is believed that the differences between the structure of the national political economy accounts for the variation in innovation strategies between countries (Hall and Soskice, 2001).

Hall and Soskice defend the German economy by stating that its unique institutions provide German companies with a comparative advantage. By contrasting the defining characteristics of a liberal market economy like the United States with that of a coordinated market economy, like Germany, they elucidate that highly regulated economies with strong non-market institutions can create benefits for companies who invest in firm specific skills, set collective wage agreements, and obtain financing through bank-based capital. This facilitates a long-term outlook for companies that is good for economic growth (Hall and Soskice 2001, 24-25). Firms therefore can benefit by adopting their strategies to the contrasting opportunities offered by their respective institutional frameworks. This statement implicitly relies on the belief that different inputs factors, like human capital, can help facilitate success in certain product markets. But does this seem realistic? I consider two scenarios where this hypothesis might hold.

The first scenario requires us to consider a product market or industry that is inherently uncompetitive as there are barriers to entry. This is perceivably the case in the state provision of public goods. When it is believed that the provision of a good cannot be provided in a system of profits and losses the argument is often made for its provision by the state. In the case of public goods there are legal barriers that prevent entry of new agents providing the good. In such a scenario a single organizational form, a bureaucratic one, is argued for as the ideal type given the nature of the good. Yet, a high degree of institutional diversity exists in the world of the provision of public goods. Various forms of communal and public ownership may exist apart from state ownership. That is, not all public goods and common-pool resource problems are addressed by the state and can be solved by individuals and groups outside the scope of the government sphere (Ostrom, 2005).

The second scenario, a theoretical one, requires us to consider a case often found in standard neoclassical economic theory: perfect competition in static equilibrium analysis. In this case economic agents are presumed to act rationally self-interested and are expected to always choose among their known alternatives the path which will yield the most returns. Conceivably then, and assuming different payoffs to choosing different organizational forms, as people face the decision to create an organizational structure through the combination of a series of inputs one organizational form ought to be more rewarding than the others. For that particular product market it then seems illogical and irrational to choose the organizational form which would yield suboptimal results. Thus, the organizational forms dovetail to one single ideal structure as less efficient forms are driven out the market by competition.

However, if one adopts a process view of market competition rather than the static equilibrium view adopted in standard neoclassical theory the landscape of possibilities completely changes.[1] Market process theory argues that the market, at any point in time, is made up of the interacting decisions of consumers, producers, and resource-owners (Kirzner, 1973). The constellation of "prices, product qualities, methods of production and incomes observed at any given instant are not at all taken to be relevant equilibrium values" (Kirzner, 1992: 41). Rather, these variables are seen at any given moment to be in disequilibrium and mutual ignorance exists on the part of potential market participants. Overtime overlooked unexploited opportunities for mutual gain are discovered and exploited. Thus, the market process consists of those changes that express the sequence of discoveries that follow the initial ignorance that constituted the disequilibrium state (Kirzner, 1973; 1992). The nature of this discovery process implies that, at any given point in time, and, in any given sector or product market, a whole range of unexploited opportunities exists. Until they are discovered and exploited it is incorrect to presume that any type of organizational form is ideal as there are many possibilities that have yet and in a sense cannot be considered. This organizational innovation is part of the discovery process and cannot be dissociated from it. Thus, Hall and Soskice's view of institutions cannot be entirely deterministic.

Matthew Allen makes a strong case for why the ideal firm structure presumed is an incorrect assessment of the German case. Allen (2006) argues that the Hall and Soskice's notion of the possibility that there is more than one way for national economies to be successful contains an inherent contradiction. Allen states that Hall and Soskice

[1] This discussion is most often had in light of the competing views of price theory. See Israel Kirzner (1973) for a complete discussion of the issue at hand.

> "…implicitly contend that there is only one way to be successful in certain product markets: firms, depending on the product market, either have to be incremental innovators or they must be radical innovators. Yet, if there is more than one way for countries to be economically successful in world markets, could it also not be the case that there is more than one way for companies to be economically successful in certain product markets?" (Allen, 2006: 139).

This finding by Allen then highlights a fundamental oversight within the Varieties of Capitalism literature: No attention is paid to the varieties of firms. Allen is not alone in his critique of the literature for the way in which firm differences within the same national economic system and/or product market has been downplayed. Morgan (2005) noted that frameworks that are based on national models can be complemented by a "stronger theory of the firm" that pays attention to firm-level dynamics (Morgan, 2005: 41). Thus, the "varieties of firms—in terms of their structure and goals—might be of greater importance than [Varieties of Capitalism] in explaining the actions of companies" (Allen, 2004: 105).

This paper continues along the same lines as Allen and Morgan by arguing that the absence of an analytical framework that accounts for the differences between firms in the Varieties of Capitalism paradigm warrants some more consideration. While I argue that the work of Allen and Morgan have made significant steps in the right direction, I believe their analysis can be further strengthened.

In particular, my paper argues that the variation in firms can be explained as a function of the diverse modes of action chosen by entrepreneurs through the acquisition, combination, and recombination of resources in the economy to exploit profit opportunities. This is done through the creation of contractual arrangements, i.e. firms, based on their perception of the best way to internalize the cost of using the price mechanism in order to best exploit the profit opportunity. Organizational innovations occur as these opportunities are discovered and exploited. Different interpretations regarding the exploitability of the profit opportunity may arise due to the dispersed nature of information in the economy and could subsequently lead to different modes of action and organization chosen on the part of the entrepreneur. In order to make this argument I will draw on the theory of the firm and the theory of entrepreneurship literatures to show that firm level dynamics and variation is given much attention within other subfields of economics.

The theory of entrepreneurship this paper concerns itself with is advanced by Israel Kirzner and Joseph Schumpeter. While Kirzner's entrepreneur is seen as an equilibrating force and the Schumpeterian entrepreneur as disequilibrating both authors view the entrepreneur as key to the competitive market process (Kirzner, 1973; Schumpeter, 1947).[2] To these authors, the entrepreneur plays a fundamental role in society by bringing about quality and price adjustments, and technological and organizational improvements. Yet, to come to this understanding one must adopt a broadened view of market competition. The standard neoclassical view of competition in the equilibrium state holds no role for entrepreneurs as people act merely to maximize their preferences against known alternatives (Kirzner, 1973).

Both Schumpeter and Kirzner define market equilibrium as a situation in which relative prices equate supply and demand with given tastes, technology, and resource availabilities (Boudreaux, 1994). In this context, Schumpeter highlights those activities that change the known ends and Kirzner the activities that establish the equilibrium price with new means ends framework (Kirzner, 1973; Schumpeter, 1947). This broader concept of the

[2] It is important to note that Kirzner does incorporate aspects of the Schumpeterian entrepreneur into his work. See Kirzner (1999) for a reconsideration of his view on Schumpeter's entrepreneur.

competitive market process allows recognition of both functions of entrepreneurs and allows theorists to take into account the fact that changes in variables other than price can be equilibrating (Boudreaux, 1994). Seeing both entrepreneurial functions is key to my understanding of the types of organizational innovations that can occur in any type of capitalist economy.

Equipped with this understanding of the entrepreneur we briefly turn to the economic theory of the firm as it will provide us with a foundation to consider the relation between firm creation and entrepreneurship. Since Ronald Coase wrote his seminal article in 1937, the economic theory of the firm as a legal entity emerged and focused on issues such as why firms exists (when non-firm, contractual means of allocating resources are available), what determines their boundaries (i.e. the allocation of productive activities across firms), and the determinants of their internal organization (such as their organizational structure) (Coase, 1937).[3] To many of these authors the firm arises as there are costs to using the price mechanism in the market and that cost can be overcome or reduced by specific administrative/contractual arrangements (Coase, 1937). For Coase, vertical integration occurs when an entrepreneur recognizes that there are "excessive" costs hindering the movement of resources from one stage of production to another. The entrepreneur internalizes the various stages of production so that they come under common ownership and the firm is created (Coase, 1937). Along this line of argument then, my paper views the modern business organization as the product of a series of organizational innovations that economize on transaction costs (Williamson, 1985: 273). The organizational innovations that occur are, in turn, the effect of entrepreneurial activity both within and outside of the firm.

[3] Authors such as Alchian and Demsetz (1972) and Williamson (1979; 1985) made large contributions to our general understanding of the economics of business organization.

Which brings us to the central research question of this paper: Can the variance of organizational forms within specific product markets be explained as the result of entrepreneurial activity?

Model and Application

To answer this question I will argue the following. Given the character of the entrepreneurial discovery process and the dispersed nature of information in any economy[4], different perceptions of profit opportunities continually arise. This is the case as the market is in disequilibrium and mutual ignorance exists on the part of market participants regarding potential profit opportunities. Overtime overlooked unexploited opportunities for mutual gain are discovered and exploited. Based on the unique perception—in terms of time and space—of the profit opportunity, entrepreneurs will choose to combine a series of inputs in a way they believe to be ideal for their goal. As such, at any point in time, numerous organizational forms can exist in any product market. This may be the case as older less efficient forms are still present, older organizational forms are being adjusted on the margins, and/or new forms are entering with the discovery of a previously unobserved opportunity.

To consider the range of organizational forms that can result from entrepreneurial discovery this paper now discusses two of the factors which must be combined in order for the entrepreneur to create a firm or business. A decision must be made regarding ways in which the venture will be financed and the management and administrative structure. In turn, I will consider how different decisions made with respect to these factors can have varying organizational outputs.

[4] See F.A. Hayek's article on "The Use of Knowledge in Society."

Entrepreneurs have a range of options in terms of financing the venture. They can use informal sources—such as personal savings, ask relatives and friends, or run up credit card debt. Or they can access formal sources—these include asset backed or formal loans, venture capital funds, etc. It is particularly along this formal dimension where most of the organizational variety will occur. In her analysis of the impact of the re-regulation of industry in Germany Lutz (2005) shows how different sources of accessing capital have led to an array of organizational forms. Since the early 1990s, a substantial restructuring has taken place leading to the "commodification and re-regulation of financial relations" (Lutz, 2005: 141). Elements of the stakeholder model—formerly the cornerstone of German finance—are either being sustained or remodeled thus leading to a greater variety of organizational models within the national system of capitalism (Lutz, 2005). Despite Hall and Soskice's argument to the contrary, the "requisite variety" of organizational models within the national model is increasing rather than decreasing (Lutz, 2005). In product markets beyond finance, to the extent that entrepreneurs observe a profit opportunity and choose to finance their venture with the traditional stakeholder model or commodified capital, divergent organizational structures emerge. In German finance markets, private banks and global firms are changing their preferences and business strategies, thereby causing "spill-over effects and further adaptation pressures on the small and medium-sized company sector" (Lutz, 2005: 141). As the German "financial system shifted towards a capital market-oriented business and regulatory framework that puts a premium on transparency, risk consciousness and shareholder value orientation it seems like the changes in organizational forms will continue" (Lutz, 2005: 153).

Similarly, the range of outcomes for the management and administrative structures are numerous. Each entrepreneur makes a decision regarding the way in which his/ her venture will be managed and how administrative tasks are to be conducted given their relative needs. Alfred Chandler (1969) shows the existence of variation of organizational structures developed within similar product markets. Sautét (2000) in turn shows how these changes are the result of entrepreneurial discovery.

Chandler presents a historical analysis of the evolution of four major companies (du Pont, General Motors, Standard Oil, and Sears Roebuck & Co.) in terms of the structural changes they underwent. Between the end of the nineteenth century and the late 1950s the systematic organizational structure of administrative tasks within departments became increasingly complex and important. With the growth of industry these firms essentially faced three choices: expand along existing lines, try to reach new markets, or develop new types of products (Chandler, 1969: 42). Many firms chose to diversify their product lines and with it came a change in the organizational structure. These firms went from the departmental (figure 1) to a multidivisional form (figure 2). For example, a distinguishing factor of the multidivisional form is the separation of ownership and control. A division is, with respect to the central management, like a "manager with respect to the stakeholders: to a limited extent there is a separation of ownership and control" (Sautet, 2000: 109).

According to Chandler, the M-Form emerged as a result of growth by diversification and geographic expansion that increased complexity of both operational and entrepreneurial activities and led to more administrative problems (Chandler, 1969). Another perspective is taken by Sautet who argues that the change of organizational form occurred as the result of entrepreneurial processes motivated by the future discoveries that would otherwise be impossible (Sautet, 2000). In other words, organizational design has two purposes: (a) the exploitation of discovered opportunities and (b) the fostering of future discoveries (Sautet, 2000). Sautet further argues that there are plenty of ways to design a firm to attain these two goals. It partially depends on institutions; but, it also depends on the type of opportunities being pursued (Sautet, 2000).

Figure 1: The Growing Departmental Form (Chandler, 1969).

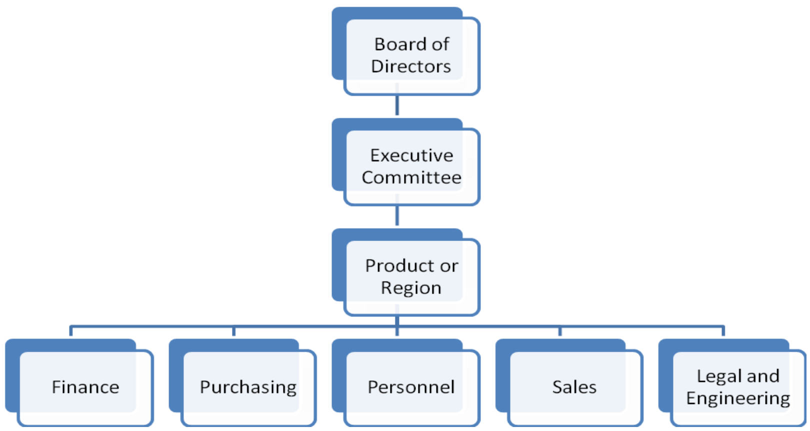
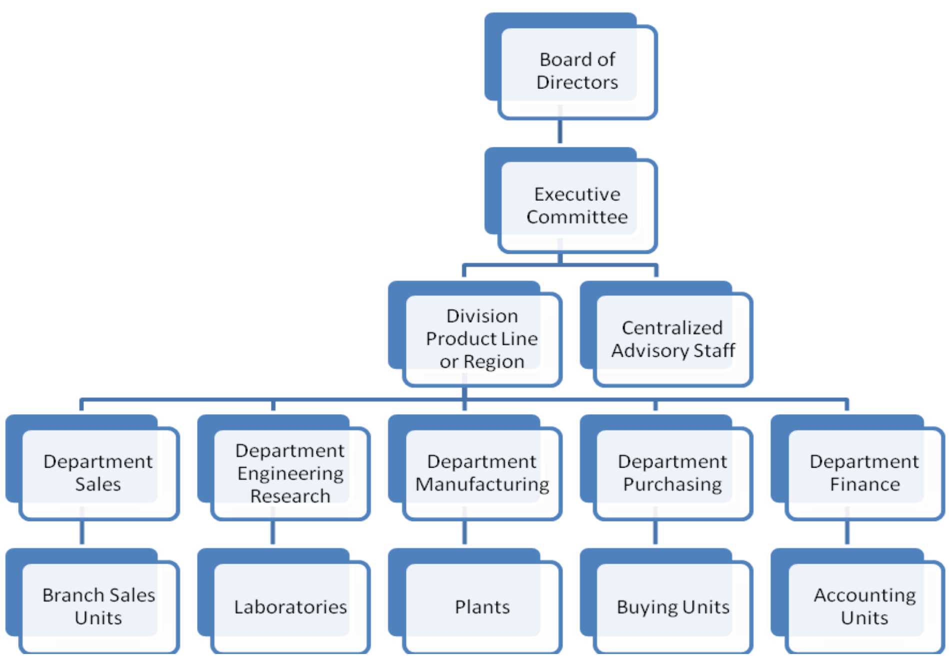


Figure 2: The Multidivisional Form (Chandler, 1969).



The choice of finance and the management/administrative structure therefore can produce an array of organizational forms. Entrepreneurs as individual agents in the market and/or within firms observe previously unnoticed profitable opportunities and enact arrangements that improve their relative well-being. These arrangements can either be a marginal improvement of existing arrangements or can be the introduction of a completely new form. Either way, a range of organizational forms will always exist as older less efficient forms are still present, older organizational forms are being adjusted on the margins, and/or new forms are entering with the discovery of a previously unobserved opportunity. Failure to account for the ways in which entrepreneurs perceive and become alert to profit opportunities in the market will lead one to an erroneous conclusion regarding the ways in which firms make their decision in terms of strategy and organizational structure.

Strategy and Structure

This paper has thus far focused on developing an analytical framework that accounts for the variation of firms within the Varieties of Capitalism literature. While that literature has presumed an ideal type of firm structure the previous section attempted to show that a variety of forms can result from entrepreneurial discovery. I now turn to a point about strategy and structure. On the one hand, we have the Varieties of Capitalism literature that argues business strategy follows the macro structure. Institutions play the key role in this framework. On the other, Chandler shows how historically the business strategy employed determined the micro organizational structure. Entrepreneurial discovery plays a fundamental role in the process. What are the implications of these competing views for our consideration of organizational innovation? Consider the following.

Hall and Soskice are correct in stating that institutions impact decision-making processes, like setting business strategy. Institutions matter as they shape and constrain the opportunities available at any point in time in an economy. But it is important to note that institutions impact *individuals* who make decisions. In that sense, institutions matter as they shape and constrain the opportunities available to *entrepreneurs* at any point in time. Viewing the business strategy decision making process as entrepreneurial action brings one a lot closer to the conclusion made by Chandler that historically the business strategy employed impacted the micro organizational structure of the firm. Therefore, the Hall and Soskice conclusion is limited by its failure to recognize a key step in the setting of business strategy and creation of organizational form. Instead, one ought to view the process as one where the existing institutions impact entrepreneurs to create business organizations as the result of their chosen business strategy. Therefore, institutions are not as deterministic as Hall and Soskice believe. The following visually captures the argument made:

Hall and Soskice
Institutions → Business Strategy (with uniform organizations)

My argument
Institutions → Entrepreneurs → Business Strategy → Divergent Organizational Forms

This raises a deeper point about whether there is a way for the micro activities by entrepreneurs to impact the macro institutions. Not all institutional frameworks are static. Williamson (2000) discusses four different levels of institutions, each with its own time frame for change. While each institutional level is characterized by its durability, it does not mean it cannot change. Consider the following. North (2005) argues that economic change—and in this case institutional change—can be explained as the result of purposiveful entrepreneurial action.[5] Economic change occurs continuously as entrepreneurs discover and enact arrangements that improve their relative well-being (North, 2005). The result is an alteration of the institutional framework (levels 2, 3, and 4), in turn, revising both the perceptions of reality and profit opportunities (North, 2005).

Institutional Hierarchy
Table 1

Level	**Type of Institution**	**How long it takes to change**
1	Embedded: informal rules, customs, religion	100 to 1000 years
2	Institutional Environment: formal rules of the game (polity, judiciary, etc.)	10 to 100 years
3	Governance: play of the game—esp. contracts	1 to 10 years
4	Resource Allocation and Employment: prices and quantities	Continuous

(Williamson, 2000: 596)

New efforts by entrepreneurs to improve their position in society are a never ending process of change. The extent to which interests, goals, or strategies stand in different

[5] It is important to note that entrepreneurs' act purposefully based on their existing belief systems and perceptions of reality. In this model then institutions are already in existence.

relation to one another leads to varying social processes and institutions (Coleman, 1986). In this sense, structure does initially influence strategy but as purposiveful entrepreneurs discover new opportunities their individual—and often divergent strategies— can impact the structure in varying ways. This is done at both the micro level—with changes in organizational form—and at the macro level—with changes in the institutional matrix. Implicitly then, my argument can account for the impact of individual orientations and decisions made combined to produce the structure of economic behavior called capitalism (Coleman, 1986). Thus, Allen was correct in stating the "varieties of firms—in terms of their structure and goals—might be of greater importance than [Varieties of Capitalism] in explaining the actions of companies" (Allen, 2004: 105). The key is to understand the activities as a market process driven by the concatenation of entrepreneurial discovery.

Policy Implications

The argument advanced by the Varieties of Capitalism paradigm that different types of national economic models can be economically successful has opened the door to an interesting policy discussion. Both regulated and deregulated economic models are advocated as successful. In fact, Braithwaite (2008) makes the argument that the last few decades should not be seen as an era of liberalization, privatization and deregulation. Rather, there has been a proliferation of regulatory controls at both the domestic and international levels in a changing environment of governance. It has been an era of "regulatory capitalism" as the number of regulatory agencies has grown dramatically over the last 20 years (Braithwaite, 2008). Regulatory capitalism is a way of describing the occurrence that while the state was running fewer things, it was regulating more of them, and spending a higher portion of its budget on regulation (Braithwaite, 2008). This transition to a more regulatory political economy coincided with the collapse of communism in the late 1980's and the emergence of the new debate surrounding alternative forms of capitalism. To the extent that ideas impact policy, some part of the rise of more regulation can be attributed to the notion that different national economic models can be successful.

The distinction between extensive government regulation and a radical criticism of capitalism must be sharply distinguished. The interventionist position of government regulation, unlike an argument for socialism, generally "appreciates the role of the market system in the efficient allocation of resources" (Kirzner, 1985: 119). The interventionist position thus "fully accepts the central theorem of welfare economics concerning Pareto optimality achieved, on appropriate assumptions, by competitive markets in general equilibrium" (Kirzner, 1985: 119). In contrast, a socialist argument would argue for the complete ownership of the resources and the government redistribution thereof. But is this steering of the flow of events, as opposed to providing and distributing them, a sound economic outcome? The position developed here follows Kirzner (1985) by arguing that regulation tends to interfere harmfully with the entrepreneurial process.

The market process is kept in motion by competition of the rival activities of economic actors trying to earn profit by offering better market opportunities than their competitors. Importantly, the number of rival competitors does not determine competition; instead, freedom of entry does (Kirzner, 1973). This constant process of competition places pressure on all market participants to discover where and how previously unnoticed opportunities exist and how they can be offered. This process is thwarted whenever nonmarket barriers to entry—like regulations—are imposed. This has the net effect of blocking potential entrants and sufficiently closes off potentially profitable avenues. When governments intervene like this in the market process, it replaces the "outcomes expected by a preferred configuration of prices and outputs, to be achieved not…, by replacing the market by central control of ownership of factors, but by imposing appropriate regulations and controls" (Kirzner, 1985:134). To this two important points are in order: consideration must be given to the undiscovered discovery process and the stifled discovery process.

In a regulated economy, a genuine market for factor services and for consumer products remain but the incentive structure has been rearranged such that previously existing profit opportunities no longer exist and formerly less desirable ones appear more promising. This is the case in Germany and many other economies that regulate certain industries. A strongly regulated economy or product market could overtime only yield a certain profit opportunity as a regulation has sufficiently rearranged the incentive structure for a product market such that what would have been more profitable no longer is. What on the surface then appears to be an optimal outcome is instead an effort to maximize in a world of second or third best alternatives. That was the case with the German stakeholder model—formerly the cornerstone of German finance. Yet, within the era of "re-regulation" the "requisite variety" of organizational models increased rather than staying static or even decreasing. Thus, the type of regulations in place impacts the organizational forms in existence. This implies that entrepreneurs discovered previously unnoticed or closed-off opportunities and innovated with new organizational forms alongside the changes in the rules of the game. Lutz (2005) argues that these regulatory changes had a beneficial impact on the German economy. How much more so would Germany not benefit if entrepreneurs were *allowed* to innovate and improve in all areas of the economy and not the just those areas the German government deems appropriate?

In this context it is important for a government to realize that it should serve as a referee and not as an active player in the economic game. Economic policy is about setting rules such that economic actors can do what they do best: discover previously unnoticed opportunities. When governments become involved in the economic game by setting strategies within, they will sufficiently rearrange the incentive structure for a product market such that what would have been more profitable no longer is. This is particular true for the argument advanced by Braithwaite (2008) that Hayek (1944) may well have been wrong that a centrally planned economy could not work because the state would never have the local knowledge of what was most needed. With the innovations in information technology, Braithwaite argues, access to the necessary information has become cheaper and allowed states to regulate smarter and better. What this fails to consider is the key point that while what appears on the surface to be an optimal outcome ignores the unseen consequences of the action. What is unseen in a centrally planned economy is what would have been had those very economic and political actions not taken place. Stated differently, the organizational innovations that would have occurred with the discovery and exploitation of new opportunities without regulatory controls no longer does as the opportunity has been removed from the range of alternatives considered by the entrepreneur. The fact is regulation interferes harmfully with the entrepreneurial process.

To conclude, the end of complete government control of the economy with the collapse of communism did not result in a complete swing of the pendulum to a free market economy. Instead, affairs seem to have settled more in the middle of the two extremes with governments exerting a strong directive influence over economic affairs. This *relaxation* of government control over economic affairs means that genuine markets for factor services and for consumer products remain. But, the incentive structure in these economies has been rearranged such that previously existing profit opportunities no longer exist and formerly less desirable ones appear more promising.

Conclusion

The Varieties of Capitalism paradigm's failure to consider the varieties of firms that exist within the same product market—in terms of strategy and structure—warrants further consideration. My paper sought to develop an analytical framework that accounts for why such variation might occur: Overlooked unexploited opportunities for mutual gain are discovered and exploited by entrepreneurs. These entrepreneurs enact arrangements that improve their relative well-being. These arrangements can either be a marginal improvement of existing forms or can be the introduction of a completely new form. Either way, a range of organizational forms will always exist as older less efficient forms are still present, older organizational forms are being adjusted on the margins, and/or new forms are entering with the discovery of a previously unobserved opportunity.

The nature of this discovery process implies that, at any given point in time, and, in any given sector or product market, a whole range of unexploited opportunities exists. Until they are discovered and exploited it is incorrect to presume that any type of organizational form is ideal as there are many possibilities that have yet and in a sense cannot be considered. The organizational innovation that occurs in any economy is part of the entrepreneurial discovery process and cannot be dissociated from it.

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