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# Behavioral influences of bureaucratic organizations and the Schumpeterian controversy

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## Abstract

The behavioral influences of large bureaucratic organizations that were noted by Schumpeter would seem to weigh heavily against the plausibility of the Schumpeterian hypothesis that large corporations are more powerful engines of technological innovations than small competitive firms. But those influences also offer clues about how cultural differences between the United States and Japan resulted in large Japanese corporations in the later post-WWII era conforming closely to the Schumpeterian hypothesis. © 2000 Elsevier Science Inc. All rights reserved.

## 1. Introduction

Several recent articles have established the relevance of Joseph A. Schumpeter's theory of entrepreneurial activities and the processes of technological innovation to socio-economics. Swedberg (1995) noted that Schumpeter experimented with two versions of socio-economics over his lifetime. The earlier and less successful version in *The Theory of Economic Development* was an ambitious form of economic imperialism in the realm of social sciences. The mature view in *History of Economic Analysis*, which advocated a collaboration between economics, sociology, history, and statistics, represented "a reasonable and intelligent approach to the study of economic phenomena" (Swedberg, 1995, p. 540). But the key principle emphasized in the earlier view was left out, namely that "Innovation, economic change, and economic dynamics all represent key problems in modern economics" (Ibid.). Swedberg

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stressed the importance of that principle, stating that: “Socioeconomic is particularly well equipped to study problems of this type, and they therefore should constitute its main focus” (ibid.).

Daneke (1998) presented important new insights into the potential contribution of the Schumpeterian principle. To the extent that a national innovation system exists, it is in a stage of dramatic transformation. Alternate analytical perspectives are needed to understand this evolving system, and these start with Schumpeter’s recognition of technological innovation as the core of economic growth. Daneke explained why and how the emerging science of nonlinear or advanced systems (modern chaos and complexity theories) can provide analytical insights that expand our understanding of Schumpeter’s theory of entrepreneurship and technological innovation as a discontinuous process.

In this paper we deal with a closely related topic. In *The Theory of Economic Development*, the processes of innovation were discontinuous as innovations generated by individual entrepreneurs in a system of competitive capitalism tended to appear in clusters. But in *Capitalism, Socialism, and Democracy*, large corporations were depicted as having succeeded in internalizing and making routine the innovation process. The controversial conjecture that large-scale corporations had become more powerful engines of technological innovations than competitive firms is known in the economic literature as the Schumpeterian hypothesis. Our purpose is to examine Schumpeter’s commentaries on the behavioral influences of large bureaucratic organizations in relation to the controversy over that hypothesis.

In section 2, we review the nature of the controversy, noting that empirical research has failed to confirm the Schumpeterian hypothesis on a general basis but has revealed that innovational processes of large Japanese corporations in the later post-WWII era seemed to comply with it. In section 3, we examine Schumpeter’s commentaries on the behavioral influences of bureaucratic organizations in *Capitalism, Socialism, and Democracy* and in his earlier essay on social classes. In section 4, we consider the implications of those behavioral influences for the Schumpeterian hypothesis. On net, they would appear to weigh against large corporations being more powerful generators of technological innovations than individual entrepreneurs as proprietors of competitive firms. But they also offer clues about how differences in corporate cultures between the United States and Japan may have been responsible for large Japanese corporations conforming more closely to the Schumpeterian hypothesis.

## **2. The Schumpeterian hypothesis: relevant and controversial**

Over a period that spanned four decades, Schumpeter stressed the importance of understanding the nature of capitalist evolution and integrating that knowledge in economic theory. As he observed the path that capitalist evolution was taking in the 20<sup>th</sup> century, his views on the entrepreneurial function and the processes of technological innovation were also evolving.

In *The Theory of Economic Development*, published in the German in 1911 and translated into the English in 1934, innovational successes were attributed to the special vision and

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