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Entrepreneurship and market order: Some historical evidence¹

By

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Abstract

Our objective here is to establish the proposition that *creative entrepreneurship* gives rise to a market order which is optimally adjusted to facilitate the introduction and the diffusion of innovations, particularly those that take the form of new markets, new organizational schemes, new management devices and new methods and means of doing business. To substantiate this claim we extract from the existing historical literature and employ the ideal type entrepreneurial method of the Greek diaspora network. The interpretation we offer is that this method showed a high degree of operational *flexibility* and institutional *adaptability* and that it is these two properties that explain its marked *tenacity* over time. The key ingredient for its success is traced to the *self-regulatory robustness* of the network, which was secured by the commitment of its partners to a moral order based on the triptych of ‘trust, reliability and reciprocity’ as well as to their acceptance in advance of the sanctions in case of transgressions. Moreover, the embeddedness of the branches of the network in the Greek communities abroad, called *Paroikies*, where the Greek Orthodox Church provided moral leadership and maintained the community ties, reinforced the adherence of network partners to the rules of ethical business conduct. But in our view the dominant force in the design of the core mechanism that made the Greek diaspora network such a success was entrepreneurship.

JEL Classification: L14, L22, F23, N83, N84.

Keywords: Entrepreneurship, Institutions, Networks, International Business Organizations

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1. Introduction

Entrepreneurship performs many functions in the economy. One is, for example, the mobilization, organization and management of human and material resources for the production and distribution of products and services in the most efficient way. This is carried out under various institutional setups and is known in the bibliography as *intrapreneurship*. Another is the discovery of disequilibrium situations between supply and demand and the adoption of initiatives to exploit them for profit, with the result that the economy is steered along a growing path of flexible stability. Still another is the undertaking of business ventures which are accompanied by uninsurable risks and uncertainty; and last but not least, a fourth function, to be referred to below as *creative entrepreneurship*, is the introduction, diffusion, and imitation of innovations in the form of new products and services, new production techniques, new organizational schemes, and new management devices and methods.²

All entrepreneurial functions are important. But *creative entrepreneurship* in the above sense is of topmost significance for at least four reasons. First, because it receives the signals that are transmitted from the economy in the form of incentives and determines what and how much new knowledge will be produced; Second, because it transforms new knowledge into entrepreneurial opportunities, which in turn shape the conditions for the introduction and the diffusion of innovations throughout the economy; Third, because through the process of imitation it acts as a stabilizing mechanism for the economy by smoothening out the effects of creative destruction; and fourth, because through all the above channels it contributes dynamically to economic growth, and hence to the rising per capital incomes. Therefore, what is surprising is not that entrepreneurship in general and *creative entrepreneurship* in particular started to be recognized in recent years at the national and international levels as primary sources of economic progress, but that it was ignored for so many decades.

Much of the credit for the revival of the interest in *creative entrepreneurship* is due to the scholarly efforts of the followers of Schumpeter (1934, 1942) who managed to bring his path-breaking ideas into professional prominence and thus led to a heightened appreciation of how entrepreneurs responding to market signals determine with their actions the rate and the direction

² The established distinction in the relevant literature is between *passive* and *active* entrepreneurship. *Passive* being, for example, the perception of profit opportunities due to disequilibrium situations, whereas the undertaking of initiatives to exploit them fall in the category of *active* entrepreneurship. Here by introducing the term *creative* we want to place the emphasis not on the nature of the functions performed by entrepreneurship but on their dynamic effects. That is why we stress the element of “newness” in these activities.

of innovations. But in attaining this achievement Machlup (1962), Mansfield (1977), Scherer (1980) and a long list of other researchers in the same tradition, focused exclusively on the group of mature economies, where markets function more or less efficiently and the prevailing institutions provide stimulating incentives for undertaking innovative activities. As a result, and under the growing influence of the writings by such prominent authors as Williamson (1985), North (1990), and Hodgson (1998), economists interested in the plight of underdeveloped countries started to realize that *creative entrepreneurship* could not flourish there, unless these countries acquired a favorable market order.

Thus economic growth theorists as well as development experts have come to suggest that these countries need appropriate institutional and social conditions. On the market side, for example, their advice is to adopt freedom of exchange, lack of price controls, taxation with fairness and certainty, etc., whereas on the social side they consider as imperative to provide for private property rights, a legal framework comprising bankruptcy, contract and competition laws, an effective judicial system for resolving quickly and at low cost conflicts among citizens, etc. By implication, if these countries are to look to *creative entrepreneurship* as a promising process towards economic development, it is extremely useful to know how these conditions come about. For if they are established and sustained in a spontaneous, completely decentralized way, the policies that they ought to follow are different than those that would be required if these conditions are generated through deliberate and conscious coordination efforts or have to be imposed by external sanction systems.

Unfortunately the evidence on this fundamental question is highly ambivalent. Following the Weberian tradition, according to which markets can function more or less effectively only if they are embedded into an appropriate social structure, a group of researchers led by Platteau (1994) have argued that, if left to themselves, markets cannot work efficiently for two reasons. First, because they do not give rise to the institutions that are necessary to solve the problem of trust among economic agents, and second, because even if such institutions were created spontaneously, markets cannot be expected to lead to a social environment of so-called “generalized morality”, which is required to keep direct and indirect transactions costs low. So they have concluded that in order to maintain social cohesiveness the market system must be supplemented with rules and enforcement mechanisms by a third party like the state. On the contrary, another group of researchers headed by Granovetter (1985) and Moore (1994) maintain that markets are

to a high degree self-regulating and that it is wrong to believe that there is need for externally imposed institutions to instill and sustain trust among economic agents or to bring about a state of generalized morality. For them it holds that through repeated interactions economic agents establish and maintain incentives for trustworthy behavior, including loyalty to moral norms for preserving their reputation within the framework of the groups they associate with. By implication, these researchers abhor all interventions to markets because, aside from not contributing to social cohesiveness and generalized morality, in their view, they raise transactions costs and thereby undermine the efficiency of markets.

The arguments by the latter group of researchers in favor of the view that markets are self-regulating gain considerable weight in the realm of international economy. To understand the reasons why, it suffices to call attention to the fact that the establishment of World Trade Organization (WTO) is a relatively recent development in economic history and that even this entity may prove quite weak to impose and enforce appropriate rules for solving the problem of trust among nations, let alone among individual transactors located in different countries. Moreover, assuming that WTO manages over time to increase its credibility, the issues relating to moral norms, as corroborated currently by the high rates of piracy of intellectual property particularly in China, are bound to remain beyond the domain of its authority. Still, despite these gaps international trade goes on at an increasing rate. Therefore, the establishment of appropriate institutions for stimulating *creative entrepreneurship* internationally will depend in the foreseeable future more on the self-regulating properties of global markets and less on the presence and trustworthiness of whatever organizations are authorized to enforce the provisions of international economic agreements.³

Our objective in this paper is to establish the proposition that *creative entrepreneurship* performs a fifth and equally important function. Namely, that it gives rise to a market order which is optimally adjusted to facilitate the introduction and the diffusion of innovations, particularly those that take the form of new markets, new organizational schemes, new management devices and new methods and means of doing business. To this effect in Section 2 we outline the ideal type entrepreneurial method of the Greek diaspora network and comment on its institutional features and services by drawing on the rich, albeit apospasmatic, literature on the Greek diaspora communities. Following Pepelasis Minoglou (2005) the interpretation we offer is that this method showed a high degree

³ In this respect it is interesting to note that, according to Casson (1995), the way in which modern day multinational enterprises contribute to international economic growth is by building "trust" among trading nations.

of operational *flexibility* and institutional *adaptability* and that it is these two properties that explain its marked *tenacity* over time. But here we go much further in that we use the Greek Diaspora network as a case study to highlight how historically individual agents in the process of exchange supplemented the market in the creation of general rules and a moral order that enhanced *creative entrepreneurship* in international business, at a time when supranational regulatory regimes were weak. From the presentation in Section 3 it turns out that the key mechanism of the network was its *self-regulatory robustness*, which was secured by the commitment of network partners to a moral code based on the triptych of ‘trust, reliability and reciprocity’ as well as their acceptance in advance of the sanctions in case of transgressions. Then, in Section 4, we explain how the embeddedness of the network into the Greek communities abroad, called *Paroikies*, provided the environment of “generalized morality” that Platteau (1994) and his followers stress as a necessary and sufficient condition for markets to be self-regulating. Our interpretation in this regard is that, even though the active presence in the *Paroikies* of Greek Orthodox Church reinforced the climate of generalized morality, the latter prevailed because of the entrepreneurial method of the Greek diaspora network. Finally, in the Section 5, we summarize our findings and conclusions.

2. The ideal type entrepreneurial method of Greek diaspora

The origins of the Greek diaspora date back to antiquity but for the modern era they can be traced to the beginnings of the rise of the world economy in the sixteenth century, if not earlier. This mercantile diaspora, which by the eighteenth century controlled the commerce of the Balkans and the Levant, experienced its ‘golden age’ from circa 1780/1820 to the early 1900s/1912.⁴ During this long period the Greek mercantile diaspora became internationally prominent in the long-distance maritime trade of staple goods and financial intermediation between the Black Sea-Eastern Mediterranean and the West. In this ‘golden age’, flourishing tight knit Greek merchant communities ‘*paroikies*’ spread from Alexandria, Constantinople, Odessa, Smyrna, and Taganrog, in the East, to Livorno, London, Marseilles, and Paris in Western Europe. The business operations of Greek diaspora ‘merchant barons’ developed autonomously from the Greek economy.

⁴ The term ‘mercantile’ as used here, is vested with two meanings. First, it denotes that Greek merchants combined simultaneously or serially trade with other activities. Second, it is meant to describe an entrepreneurial behaviour, which consisted ‘of adaptive responses to short-term opportunities for capital accumulation rather than creative [e.g. industrial] innovation and long-term planning’; hereby thus following the term mercantile as used in Turell and Van-Helten (1987). See also Pepelasis Minoglou and Ioannides (2004).

They were of a multinational scale, and, perhaps not surprisingly, attracted the attention of one of the early great economists. In particular, Jean Baptiste Say, in his *Cours Complet D' Economie Politique Pratique* (1828), devoted a special section to the merchants of only two nations: the Greeks and the Americans.

Throughout its golden age Greek diaspora merchants adopted a uniform entrepreneurial method, which was the outcome of a long process of evolution.⁵ The origins of this ideal type method can be found within the eighteenth century community of ‘itinerant’ merchants. The core features of this method were: a) the operational *flexibility* of the Greek Merchant House, which permitted the extraction of scale and network economies; b) the self-regulating and highly adaptable nature of mechanisms, which cultivated trust among participating parties and maintained norms of ethical business conduct; c) the internal diffusion of information, which made partners privy to exclusive *ex ante opportunities* for profit, d) the innovations introduced in the forms and instruments of trading, and e) the bonding of partners through ethnic, religious, language, family, and other ties so that all were expected to abide by certain rules of conduct and accept sanctions for transgressions from ethical business practices. Below, we will show that features (a)-(c) are unique to the entrepreneurial method of Greek diaspora because, by giving it a highly *flexible* form, they enabled it to withstand the transformation of the nineteenth century mercantile diaspora into the twentieth century shipping diaspora.

2.1. The ‘unique’ services of the Greek Diaspora network

Greek diaspora entrepreneurs, even after the dawn of the second era of globalization circa the 1920s did not develop a strong incentive to adopt the organizational framework of the hierarchical corporate firm, as was the general case in large scale operations in international business. This Greek diaspora originality and digression from the ‘stylized’ historical trajectory would not have been possible without the unique features of the Greek entrepreneurial method. To an analysis of these features we turn immediately below.

2.1.1. The Greek diaspora Merchant House: a *flexible* network-shaped entity

The nineteenth century multinational mercantile empires of the successful Greek diaspora

⁵ The term “uniform” meaning here that merchants conformed to this method regardless of the geographical locus where they were based.

entrepreneurs took the shape of agglomerations of a variety of organizations.⁶ At the center of each of these agglomerations stood a Merchant House. The latter would take the legal shape of a general or a limited partnership and throughout the growth of its domain, it would persist as its core organization. Unlike Western Merchant Houses that were Trading Companies engaged in long distance trade, this Merchant House did not have the rigid structure of a firm. Instead, it was an amorphous fluid entity, involving a large number of actors and *ad hoc* renewable, often informal, collaborations. Indeed, it may be argued that the Greek Merchant House resembled more a network than a firm on two grounds. First, because its international branches were in substance not branches, but separate entities, and, secondly, because as the House expanded it spread its tentacles not only by increasing its number of branches, but also through building a web of opportunistic collaborations with other Houses or Merchants, most of whom belonged either to other members of the same family or to the internationally dispersed network of Greek diaspora traders (Pepelasis Minoglou, 1998; 2005).

External collaborations acted as a popular venue for diversification into banking, shipping, industry and other areas. Let it be noted that this diversification often involved also a geographical shift in the focus of activities of the House. Usually diversification was aggressive. In contrast to what was the usual case, it occurred before there was a fall in profits in the core sector of the House, i.e. the long distance trade in grain. As to their form, such collaborations involved a mixture of informal *ad hoc* partnerships, often based on oral agreements, short-term joint ventures, with a specific objective such as the chartering of ships, or even sea loans; commenda type deals; the formation of limited partnerships or even *Societe Anonymes* Companies. These external collaborations would be undertaken either by the House as an entity or by individuals belonging to the House. For it was the custom for merchants and (for agents) to maintain a privateer status in parallel to their participation in a Merchant House.

Finally, in contrast to Western Merchants and Trading Companies engaged in the long distance reciprocal trade between East and West, Greek Merchant Houses had the advantage of not relying on outside agents. Instead, they internalized transaction costs by establishing their own agents along the trade route: the local producing hinterland, depot centers, such as Livorno, and large western ports. The Greek Merchant House, by penetrating the market at both ends, was able to reduce the cost of

⁶ The meaning of the term “variety” is that these organizations contained the full range of set ups lying between informal oral agreements and formal firms, some of which were even fledged joint stock companies.

trade and attain efficiency gains.

Moreover, the Greek Merchant House was able to adapt successfully to exogenous shocks and changes in trade routes. It was this fluidity that allowed Greek Houses in Holland with the closure of the Dutch ports between 1780-1782, to shift their operations to Trieste. Another such example of adaptability is the shift of the operations of the Odessa based Greek Merchant Houses to the Sea of Azov in the 1850s-70s, as a result of the relative decline of Odessa as a grain exporter.

In a nutshell, the Merchant House of Greek diaspora constituted an institutional innovation in international business because as a flexible organization it was successful in lowering transaction costs, attaining a long life and responding quickly to shifting market conditions. As a result of its operational *flexibility* and *adaptability*, a situation of path dependence developed, whereby Greek diaspora entrepreneurs over the long duration maintained a preference for fluid business arrangements, which allowed them to engage simultaneously and serially in multiple loose partnerships.

2.1.2. Endogenous generation of business opportunities

Unlike what was the general case with closed clubs, or the networks ‘of trust and reputation’ of other trading diasporas, this geographically and functionally dispersed peer group provided to individual member merchants an *ex ante* access to the participation in numerous profit opportunities in collaboration with other merchants belonging to this closed network. A key mechanism that guaranteed the smooth operation of this unique service was that the honesty of each member of the peer network of merchants was constantly being monitored through the reliance of each merchant trader on *ad infinitum* renewable collaborations. This commercial mechanism limited post-contractual opportunism among partners and agents most of whom were based in distant locations (Pepelasis Minoglou and Ioannides, 2004).

Additionally the Greek diaspora network also offered the more conventional services, that closed groups and networks are supposed to provide to their members. Namely, it offered its members exclusive information services; it served as a pool for prospective ‘trustworthy’ business collaborators; and it acted as an informal ‘insurance mechanism’ enhancing the ability of merchants to spread risk and handle uncertainty.

2.1.3. Innovative forms and means of trading

From a wide perspective the Greek diaspora entrepreneur was an Schumpeterian innovator in that he conceived and applied new practices (creative innovation) in the trade of goods and

financial intermediation between Western Europe and the Eastern Mediterranean. Indicatively, we here refer to two examples. The first is the method of cargo trade and worked as follows: A Merchant House loading grain in Odessa or Taganrog dispatched a bill of lading and sample to the family House in London, which sold it in anticipation of arrival. Cash paid might then be used for purchase of coal, textiles or other return cargoes. Speculative profits were often made from this method of trading, as a cargo would be sold two or three months prior to arriving to its final destination. Also it was the case that the cargo of grain by the time it arrived to the West, might have been sold numerous times, so the final owner would not be the original buyer, but a third or fourth party. The second is the mandat method improvised by a small group of Greek diaspora bankers in Constantinople in the late 1860s. Through this method Greek bankers internationalized the domestic public debt of the Ottoman Empire and increased the flow of funds into the Ottoman state treasury.⁷

In sum, the innovative entrepreneurial method of the Greek mercantile diaspora was possible because of the existence of a dense high trust network, which provided a mixture of novel and traditional internal regulatory mechanisms. In such an environment free riding, rentier and moral hazard behavior among the members of the network were reduced or eliminated. Thus, their efforts were spent mostly to create profit opportunities (Schumpeterian type entrepreneurship) rather than to exploit unnoticed ones (Kirznerian type entrepreneurship).

2.2. The test of time as a proof of success of the ideal type Greek diaspora method

The mercantile diaspora began to recede by the end of the first decade of the twentieth century, as it suffered severe blows by the Bolshevik revolution in Russia, the dissolution of the Ottoman Empire and the rise of the local middle classes in Egypt, which limited the room for financial activities by Greeks and other foreigners. As Harlaftis (1996) has shown, from the ashes of this mercantile diaspora rose the shipping diaspora. It was the large Greek grain merchants for example in London (such as the Vaglianos) or in Odessa (such as the Rodocanachi) who became the first Greek shipowners and who made the transition from sail to steam.

Throughout the twentieth century, Greek diaspora shipowners controlled an increasing proportion of world tramp shipping, (i.e. shipping in bulk commodities in a free-loose manner and with no fixed and regular schedule. Let it be noted here that 2/3 of world shipping takes the

⁷ This innovation is described in Pepelasis Minoglou (2002).

form of tramp shipping) Diaspora entrepreneurship in its transition from trade to shipping has remained firmly attached to the *method* that characterized the mercantile era. As in the past there is a strong degree of network embeddedness and multiple *ad hoc* collaborations among members. There are also some indications that, as during the mercantile phase, the members of the diaspora shipping community were privy to ex ante exclusive profit opportunities.

The diaspora shipping firms of the mid-late twentieth century did not assume a corporate character in spite of their large size. Throughout the second period of globalization, as entities they resembled more networks than firms with well-defined boundaries and were in fact less hierarchical formations compared to their contemporaneous western counterparts in liner or bulk shipping.

In the shipping diaspora, very much as was the case with the mercantile diaspora, each firm-house was broken down into many units. Segmentation was related to the fact that shipowners wished to have control over the everyday operations and the strategic management of their firms. When they feared loss of control or when it was restrained, they would dissolve their partnerships and go on their own. Usually an individual twentieth century Greek shipowner, as the diaspora merchant in the nineteenth century, would be involved consecutively or even in parallel in collaborations with other members of his closed social group in a variety of business ventures in different combinations. This reality is only now beginning to change and the Greek-owned shipping business is moving towards a more corporate form of organization.

The tenacity of the nineteenth century mercantile diaspora entrepreneurial method and its 'adoption' (or one may argue continuation) by the twentieth century Greek owned shipping community is all the more remarkable, if we take into consideration the supremacy of the latter in the international business community.

2.3 Synopsis of findings so far

Our reading of related historical evidence offers the interpretation that the ideal type entrepreneurial method of Greek Diaspora, which has shown remarkable operational *flexibility* and institutional *adaptability* over time, is an example of an endogenous process of *institutional innovation* within itself. Indeed, the Greek mercantile diaspora provides fertile ground for speculation regarding the question whether big business (and the growth of the firm) needs by necessity be identified with the managerial/corporate firm. The Greek diaspora Merchant House and shipping firms are a historical case which portrays how, when networks are efficient, a situation of

path dependence develops whereby in the transition from small to large organizations, the latter may take the shape of network based ‘amorphous’ business hybrids instead of hierarchies (Colli, 2003; Jones, 2005; Casson and Cox, 1998; Jones and Rose, 1993). In addition, our historical analysis showed how the Greek Diaspora network supplemented the market in the creation of general rules enhancing *creative entrepreneurship* in international business, at a time when supranational regulatory regimes were weak. Here also, given the tenacity of diaspora network, it may be argued that a mechanism of path dependence and endogenous formation of institutions was at work.

3. Mechanisms of self-regulation

The Greek diaspora extended geographically from the frontier economy of the Sea of Azov, to the weak and corrupt states of the Eastern Mediterranean, and the more developed nation states of Western Europe. Clearly, since the network had international dimensions, by necessity it adapted and operated in a multitude of institutional settings. So to fill the institutional vacuum that characterized the global economy at the time, the network had to develop as a self-regulating mechanism of defining rules of business conduct and enforcing them on its members. In particular, although the members of the Greek mercantile diaspora engaged in business across borders, they operated as a closed community and transactions were carried out internally *within* the diaspora network according to well-defined moral order and well-enforced rules.

A rich literature exists on the religious, legal and educational foundations created within the Greek mercantile *Paroikies*. However, these foundations have been examined up to now basically from a philanthropic perspective. Their role in enhancing creative entrepreneurship has not been noticed before. We would like to put forward the argument that in the absence of strong supranational regulatory institutions for the prevention and resolution of conflicts in the nineteenth century, the diaspora network adopted and enforced a moral code for business practices, which built and maintained successfully the trust between the geographically and functionally dispersed trading and business partners.

3.1 The new moral order

At the opening of the nineteenth century developments within the mercantile diaspora communities situated in the Ottoman Empire instigated the creation of a *new moral order*. To explain, in 1806 Sultan Selim granted commercial privileges to the ‘Greek nation’ which led to the creation of a self-regulating Greek Traders’ Coalition formally recognized by the Ottoman authorities and which

was based on a system of legal decrees, an amalgam of the 1807 Napoleonic Commercial Code and the body of Greek Customary Law that had evolved spontaneously since the Byzantine era.

The Traders' Coalition was not simply a legal entity. It played an important role in the dissemination of the *new moral order* throughout the international nexus of Greek diaspora merchants. Specifically, the two formal chapters of the Greek Traders' Coalition in Constantinople and Smyrna acted as inspirational blueprints for the 'enlightenment' of the Greek world of traders via the following twin procedure: the transplantation of modern (western) commercial techniques and the strict adherence to Christian Orthodox virtues within the international Greek diaspora merchant *paroikies* as an entity. Namely, scientific and moral enlightenment were advocated as a *sine qua non* for the material progress and success of the international Greek diaspora.

A major testimony to the enlightening activities of the Traders' Coalition is the notorious *Commercial Encyclopedia Ermis o Kerdoos (1815-7)* published in Venice with the initiative of the Greek Traders' Coalition of Constantinople. Its author Nikolaos Papadopoulos provided detailed guidelines for success in business. Apart from his advice on many practical issues –such as for example the 'proper' way to issue bills of exchange; the introduction of limited liability partnerships; and the need for the application of the system of double entry book keeping- he gave a central position to the obedience in the 'commandments' of the Christian Orthodox faith and diligence. Moreover, merchants were advised to adopt the following virtues: humbleness; frugality; respect of elders; fair treatment of other merchants; promptness in payments and obligations; and the support of the education and training of young aspiring merchants (*Ermis o Kerdoos*, written by Nikolaos Papadopoulos, Volume One, Ermathini, Commercial Study, Venice, 1815, 139-165).⁸

Other testimonies of the enlightening impact of the Traders' Coalition and its commitment to the spread of a *new moral order* is the publication of numerous books informative on the western ways of doing commerce and the founding of commercial schools as for example that in 1817 in

⁸ From historical evidence we know that in order to become a member of the network a merchant had to abide by several requirements. That a merchant trader ought to be of Greek descent and belong to a family of merchant traders were *desired* conditions, but not sufficient. The only absolutely indispensable requirement was that a merchant ought to have a reputation of being honest. Moreover, there were unwritten rules of correct moral and commercial conduct which member merchants had to 'abide to': They had to be loyal and display reciprocity and deep solidarity to other members of the network. They were expected to be obedient towards their elders, have the ability to keep commercial secrets, work diligently, be thrifty, have capital liquidity, be creditworthy and complete their obligations towards other parties on time. Hence, the recommendations made in *Ermis o Kerdoos* had been adopted and put into actual practice.

Odessa.. In sum, within the Greek mercantile diaspora there were two cultural influences at play: the reality of the so-called ‘Levantine’ unreliable and parochial business practices versus the vision of modernity. The latter, a combination of new western business techniques, the ethos of the enlightenment, and eastern (orthodox) Christian values, prescribed *a new moral order*, which it may be argued was a cornerstone for the success of Greek diaspora networks.

3.2 Enforcement

A threat of sanctions was required for the preservation of the *moral community* within the Greek diaspora merchant network. Members who practised fraud (Mandylara, 1998) or who adopted unconventional business practices would be ostracized. Two notorious examples in the second category were Adamantios Korais who as a young aspiring merchant lived in Amsterdam in the 1770s, and Stephanos Xenos, whose business operations were based in mid-nineteenth-century London. In both cases, some hints that they committed fraud resulted to their expulsion. However, the insinuation of fraud on their part was more of an excuse, as the real crime committed was that they did not conform to the norm. Korais adopted western techniques faster than the rest of the diaspora community in Amsterdam. To some extent this was also true of Xenos who, when nearing default, was not bailed out by his fellow Greek merchants because socially he was considered an outsider.

Expulsion was not always clear-cut. This was especially so if the ‘errant’ merchant had powerful personal or family connections within the Diaspora merchant community. For example, when Korais withdrew from his merchant activities maintained close social relations with Amvrosios Rallis and other important merchants. Another example is that of Ioannis Avgerinos in Smyrna, who was apparently guilty for fraud. He used his clout to hide his fraud and was *de facto* expelled only when he went bankrupt. Also the Diaspora community was not sealed from outside influences, as richer merchants originating from Ottoman provinces often sought the diplomatic protection of western ‘business’ nations.⁹

4. The embeddedness of the network in the Greek diaspora communities

Under Ottoman rule, the Greek nation had organized itself within the framework of semi-autonomous and self-regulating communities. The diaspora *Paroikies* evolved in part from custom-

⁹ For example, the notorious diaspora merchant Andreas Syngros enjoyed the diplomatic protection of Holland.

ary law and traditions, which cultivated among its members the principles of democratic representation and mutual assistance. Although there was uniformity in this aspect, it must be underlined that the *Paroikies* took diverse shapes. Initially some were *compagnias* (narrowly defined guild-like communes) such as for example the 18th century Greek commercial *compagnia* of Brasov in Transylvania.¹⁰ Other diaspora *paroikies*, as for instance that of Saint George founded in Vienna in the 1720s, functioned as an ethnic co-fraternity, which represented its members in disputes with the local authorities. By the opening of the 19th century some others evolved into fully-fledged semi-autonomous communities. Namely, though self-regulating *nazione*, they were well integrated in the cosmopolitan life of eminent port cities as Alexandria, Livorno and Marseilles.

Elected local Greek laymen, mostly leading merchants in collaboration with Christian orthodox Greek clergy, ruled Diaspora *paroikies*. It seems that in most cases, over time there was a shift in the balance of power: the clout of the clergy in community affairs weakened, whereas the strength of merchants appears to have increased. The economic, social and religious spheres were however throughout intimately intertwined as the members of these communities lived, worked and attended mass in the Greek ‘quarters’ which almost always lay at the commercial heart of their host cities.

Interlocking merchant networks lay at the core of diaspora *paroikies*. Their leadership enforced the *new moral order* that was seminal for the perpetuation *cum* success of diaspora merchant networks both of which were dependent on the triptych of ‘trust, reliability and reciprocity’. While the triptych held a seminal position within the *new moral order*, the latter evolved over time in substance and manifestations as *paroikies* changed.

In the early *paroikies* of 18th century Central Europe the moral order was close to the customary law/traditions that had evolved within the Greek nation over the centuries. It was manifested through the statutory rights of the leaders of the *compagnias* to undertake the arbitration and settlement of economic disputes among its members. The judges in such cases were practicing merchants. In fact because they were in business themselves and they received no payment for their legal community services they reached fast decisions and this gave diaspora Greeks a competitive advantage, as otherwise they would have to succumb to the usually more lengthy legal procedures of the regular courts in their host countries.

¹⁰ There was diversity within each category of Greek diaspora *paroikies* as for example among the various *compagnias*.

5. Concluding remarks

According to the relevant literature, *creative entrepreneurship* in the sense that we defined it performs four very important functions in the economy. It determines which and how much new knowledge will be produced. It shapes the conditions for the introduction and diffusion of innovations in the form of new products and services. It stimulates the process of imitation; and lastly it contributes dynamically to economic growth, and hence to the rising per capital incomes. In addition to these functions in this paper we established that *creative entrepreneurship* gives rise to institutions that are optimally adjusted to withstand the tribulations of revolutionary changes across centuries, countries, and ways and means of conducting business. By adopting a historically informed theoretical approach (or one might argue vice versa) we showed how in the case of Greek diaspora network *flexibility* and *adaptability* became the foundations of a successful business method, which rendered the horizontally structured business organizations of the diaspora very efficient relative to hierarchical multinational firms.

Our interpretation of the historical evidence led us to the conclusion that the tenacity over the last two centuries of the method and organizational forms of the Greek diaspora network can be attributed to the existence of a robust self-regulating mechanism, which was based on the principles of the moral order that were expounded by Nikolaos Papadopoulos in his publication *Ermis o Kerdoos* in Venice in 1815. By adopting these principles in their business conduct and by accepting in advance the sanctions for possible transgressions, the partners in the Greek diaspora network enjoyed all the benefits emanating from the triptych ‘trust, reliability and reciprocity’. Moreover, those who abided by these principles had the blessing of the leaderships of the par-oikies in which they lived. As a result they operated in an environment of “generalized morality” in which ethical business practices benefited the merchants themselves and their communities.

Finally, a remark regarding the challenge expressed by Moore (1994) for more empirical evidence on the processes by which reputational mechanisms are built and enforced endogenously in various markets. The case that we presented demonstrated how entrepreneurship, in the absence of regulatory supranational institutions, led to the formation of a self-regulating Greek diaspora network that withstood the tribulations of international economic and political upheavals for over two centuries. Our interpretation of the historical evidence is that its time tenacity and success emanated from the fact that it acted as enforcement mechanism of a moral order that resolved effectively the problems of information in business transactions.

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