The Meaning of Entrepreneurship: A Conceptual Insight

Prof. B. Asokumar,
Senior Professor
VIT Business School,
VIT University,
Vellore-632014,
India.

Abstract

Entrepreneurship as a discipline of study is gaining importance. Though the activity exists since the inception of mankind manifested through various activities and the scientific approach to Entrepreneurship is of relatively recent origin.

The term “Entrepreneurship” is perceived and interpreted in different ways. This paper analyses the research studies made on the subject to understand the origin, perspectives by which it can be looked at, entrepreneurial tasks and skill sets which define the processes. In addition to the above, the contributions from socio economists, managers and psychologists’ viewpoints on the cognitive aspects of entrepreneurship add value to the knowledge of understanding.

By the review of literature on the subject, the views were assimilated to arrive at a simplified way in understanding the meaning of the term Entrepreneurship, in this paper.

Keywords: Business, Employment, Entrepreneur, Risk taking, Opportunities, Venture and Business Plan.

Introduction

The term ‘Entrepreneurship’ connotes different meanings. It needs to be understood with the research study support to keep the perspectives properly. In this study, it has been attempted to understand the meaning of entrepreneurship. Many scholars attribute innovation to entrepreneurship where as from the view point of some scholars the process of cultivating certain abilities to carry out some of the entrepreneurial tasks are defined as entrepreneurship. A deeper understanding of the above with research evidence would bring out the convincing meaning of entrepreneurship. Such an understanding would help us to apply the knowledge in various ways like: developing a proper curriculum in entrepreneurship education for different age groups, creation of entrepreneurial motivation programmers at various levels, to formulate suitable ecological ambience for promoting entrepreneurship and by all the above the economic value addition process for the national resources can be accelerated.
1.1. Multidisciplinary approach

Depending on the intellectual application, entrepreneurship either enhances the resource allocation efficiency for given ends and means or drives the dynamic performance of the system through the progressive creation of new products, processes or markets. This means application contexts vary widely. This wide variation calls for interdisciplinary approach involving scholars from the fields of economics, business strategy, organisational behaviour, sociology and psychology. For instance, scholars of business strategy and management typically apply a behavioural and process perspective, interested in how to act entrepreneurially. Conversely, economists primarily care about how the economic system works and therefore characterize entrepreneurship by the particular functions it fulfills in order to enhance the operational efficiency of the overall system. Yet, when labour economists deal with entrepreneurship, they are specifically concerned with the occupational choice of either being a salaried employee or self-employed. Finally, sociologists and scholars of organisation studies investigate the social and organisational embeddedness of entrepreneurial behaviour, while psychologists add their expertise to explain how entrepreneurship relates to personal characteristics and individual cognitive processes within varying situational contexts.

Taking advantage of its openness to such varied inputs, in recent decades entrepreneurship has emerged as an independent branch of academic inquiry, being multidisciplinary but mostly associated with the management focus. In one of the earliest attempts for an independent and comprehensive intellectual basis, Casson (1982, p. 23) defines the entrepreneur as “someone who specialises in taking judgemental decisions about the coordination of scarce resources”, further explaining that judgemental decisions are those for which no obviously correct procedure exists in the sense of the routine application of a standard rule.

1.2 Innovation, Opportunities and Entrepreneurship:

There is no consensus on definition of entrepreneurship but many scholars have equated entrepreneurship to innovation. Drucker claims that all successful entrepreneurs innovate and innovation is the only thing associated with entrepreneurship. Innovation has been differentiated by other concepts like invention and discovery. Invention refers to finding new things while innovation involves taking the inventions and discoveries to the market or for consumption of public goods. A different view by the marketers could be that whatever be the terminologies one may assign, it ultimately matters the product differentiation created or the unique selling proposition identified or the positioning space identified / created in the minds of the potential customers about the products and services.

These dimensions in the discussion, make us to infer that Entrepreneurship as the process of innovation culminating in market space and size or innovation in technology or any other processes just facilitate to attain the final goal of better revenue generation through proper interphase between customers and the organization. Shane and Eckhardt (2003, p. 165) define entrepreneurial opportunities “as situations in which new goods, services, raw materials, markets and organizing methods can be introduced through the formation of new means, ends, or means-ends relationships.” The study by Venkataraman (1997, p. 120) corroborates with the above by stating that “entrepreneurship as a scholarly field seeks to
understand how opportunities to bring into existence ‘future’ goods and services are discovered, created, and exploited, by whom, and with what consequences.”

Hence, conceptually innovation and entrepreneurship has two components: a). Something new or different, which is created by entrepreneurs as described by Schumpeter in his creative destruction. b). Organization of various resources and activities and components, both new and otherwise, to reach markets, again done by entrepreneur. It is difficult to define innovation but we all know when innovation occurs.

Viewpoints expressed here are not to propose new definition of entrepreneurship but to provide simplicity in understanding entrepreneurship. To understand, we have assumed that successful innovation is the consequence of successful entrepreneurship and that entrepreneurship cannot be separated by entrepreneur. The review of past research in understanding the ‘Entrepreneurship’, provide four different dimensions and they are not mutually exclusive.

i). Motivation based explanation: These explanations were put forward primarily by psychologists and other behavioral scientists. The main argument put forward by these explanations was that successful entrepreneurs are people with high levels of motivation, passion, need for achievement, need for power, risk taking propensity etc. I categorize these are “motivational” approaches to entrepreneurship because the core argument of these explanations is that entrepreneurs are more motivated than others, though nature and type of motivation may be different under different conditions. These approaches promised quite a lot and there was a lot of euphoria about these approaches till 1970s but afterwards, importance given to these approaches by researchers has declined as these were found to be inadequate to explain entrepreneurial success. It is not that there is no research taking place in entrepreneurial motivation but the research is more oriented towards explaining entrepreneurial orientations or entrepreneurial intentions rather than entrepreneurial success, which is more at behavioral level. In other words, these approaches have been fairly successful in explaining as to why certain people are more disposed towards becoming entrepreneurs but not why entrepreneurs become success.

ii). Socio Economic explanations: These explanations were put forward by sociologists and economists. The main argument was that entrepreneurs have access to certain rare and critical resources because of unique positions that entrepreneurs occupy in the environmental structure. The resources could be financial capital, human capital, social capital informational or physical in nature. These approaches have been able to explain entrepreneurial success at a point of time. However, the approaches fail to account for success of serial entrepreneurs or entrepreneurial who cannot access unique resources in one situation but access the same resources when situation changes. To put it in simple words, these approaches could not explain why certain entrepreneurs starting from inferior structural positions are able to create success by moving to structurally attractive position.

iii). Entrepreneurial Ecosystem based explanations: These explanations came from economists, sociologists and other macro-social scientists. The main argument put forward by these scholars was that a reason for entrepreneurial success is favorable environment. The environment could be structural factors such as administrative machinery of state and policy framework or culture towards entrepreneurship in the society. Core argument of theses explanations is that entrepreneurs thrive in certain conditions and wherever such conditions are present, entrepreneurship is likely to be high. The conditions could be: favorable policy and good infrastructure.
iv). Capability based explanations: The main argument behind these explanations is that the opportunity does not exist in environment but in the way an individual perceives the environment. The perception of environment is influenced by capabilities that individual possessed. In other words, human capital/skills possessed by entrepreneurs are very important in entrepreneurship. This line of argument has not received adequate attention in the literature as scholars have only gone to establish relationship between opportunity identification and capabilities of an entrepreneur.

Unless all the four explanations are looked at critically with a holistic view, we may not be really addressing the issues of multiple complexities involved in creating, developing and sustaining entrepreneurial processes which create value.

The holistic view expressed above may be looked critically with research inputs on the following sets of activities performed by an entrepreneur and the sets mentioned here need not be exhaustive.
1. Adventurous wealthseeker
2. Risk bearer
3. Market Maker
4. Vigilant Fortune Seeker
5. Knowledge based Fortune maker
6. Returns on Efforts orientation
7. Organised entrepreneurship

1. Adventurous wealthseeker:

The early Global trade documented by Karayiannis (2003) reports how the Greek philosopher Xenophon described the proper activities of free enterprise in the world. He went on to explain about the knowledge and information sourcing capabilities of the Greeks to find out the geographical contingents of abundancy in the availability of Corn, cane and wheat across the Globe. They ventured to seek fortune by moving to such countries braving the weather across the oceans. This demonstrated ability could generate value to the community and to the Greeks.

Interestingly, the very name Entrepreneur was evolved in the early 18th century, when Richard Cantillon coined the term ‘entreprendre’. It indicated the general undertaking of a business. Cantillon envisaged agents who contract with suppliers and labour at known cost in order to produce goods that later could be sold at uncertain prices. He already considered the profit motive for engaging in exchange, uncertainty, and cost reductions due to the application of new production techniques.

2. Risk bearer

Beginning with Cantillon, a number of authors have stressed uncertainty and the risk bearing function as a defining characteristic of entrepreneurial activity. For instance, in the first half of the nineteenth century J.H. von Thünen characterised entrepreneurial profits as the residual income after interest payments, insurance against business losses, and wages of management, i.e. as a return to uninsurable risk, effort and ingenuity. Justifying profit and explaining its sources was also a major endeavor among American economists of the late
nineteenth and early twentieth century, who increasingly stressed the risk-bearing function of entrepreneurs. Finally, it was Frank Knight (1921) who provided the most enduring argument. As he explains, entrepreneurs specialise in risk-bearing, because they feel confident about their decision-making ability under conditions of fundamental uncertainty. The defining characteristic of a new start-up organisation is therefore the division of labour, “under which the confident and venturesome ‘assume the risk’ or ‘insure’ the doubtful and timid by guaranteeing to the latter a specified income in return for an assignment of the actual results” (Knight 1921, p. 60-63).

Kihlstrom and Laffont (1979), who present a general equilibrium model of firm formation based on the occupational choice of people with less risk aversion to run their own business, and the others to become employees. The situation is different, however, for empirical analyses, where ‘self-employment’ is frequently applied as the appropriate empirical counterpart of entrepreneurship. One example is Evans and Jovanovic (1989), who test a model of occupational choice, confirming that imperfections in the capital market impose liquidity constraints on would-be entrepreneurs. The findings generally underscore, that in practice independent entrepreneurs must use their own funds for a considerable part of their ventures and hence assume the risks associated with the capitalist function as well. This leads us to conclude that Knightian uncertainty is an important aspect to understand the actual operations of entrepreneurs as an occupational group, even though we won’t use it as defining characteristic of entrepreneurship more generally.

3. Market Maker:

Friedrich von Wieser still defined entrepreneurs as an occupational class of legal owner and managers of an enterprise, but introduced two themes that became constitutive for distinct strands of research (Streissler 1988). The first is his emphasis on the informational function of market prices, which was taken up and further developed by Mises (1949) and Hayek (1945, 1978). Hayek in particular, explained how the competitive process stimulates the discovery of profit opportunities through the information revealed by movements in the price system. It is the entrepreneurial discovery of variation in prices that incites a business owner to increase supply where shortages of a particular commodity are most severe.

The same entrepreneurial responsiveness to price signals causes continuous adjustments in the allocation of resources between competing uses. Hayek thus established our understanding of competition as an entrepreneurial discovery process, which leads the many independent and largely dispersed market participants to adjust their plans in an equilibrating direction. However, in the dynamic, fast moving market environment this equilibrium is never reached. Otherwise, the entrepreneurial function would cease to exist. Kirzner (1997a, b) defined the entrepreneurial competition, stressing the entrepreneurial alertness to hitherto unexploited profit opportunities. Alertness is an asserted behavioural mode, which rests on the differential ability to notice gainful opportunities without deliberate search (Endres and Woods 2006).

Opportunities arise through ignorance (i.e. earlier entrepreneurial errors) and “the continual change in tastes, resource availabilities, and known technological possibilities” (Kirzner 1997a, p. 72). The entrepreneurial response can be either of both arbitrage in pure trading relationships or the adjustment of production to changes in input prices and/or technology.
In both cases opportunities are already given and price signals in the market alert the entrepreneurs and trigger their activity. In short, the entrepreneurial pursuit and exploitation of profit opportunities drives the process of market coordination with the price signals on the market being its guideposts.

4. Vigilant Fortune Seeker

The intellectual seedbed of Carl Menger proved influential for another concept of entrepreneurship, which relates to a second theme that Wieser introduced, i.e. his notion of the creative entrepreneur. Combining influences from both the Austrian School and the German historical tradition, Schumpeter (1911, 1928) explains the nature of entrepreneurship by the recognition and assertion of opportunities through innovation, which includes “the introduction of new commodities” as well as “technological change in the production of commodities already in use, the opening up of new markets or of new sources of supply, Standardisation of work, improved handling of material, the setting up of new business organizations such as department stores—in short, any ‘doing things differently’ in the realm of economic life” (Schumpeter 1939, p. 84). In contrast to the exploitation of given opportunities that serve the mutual co-ordination of actors in the market place and thus the equilibration of supply and demand, Schumpeter thus defines entrepreneurship as the particular economic function responsible for introducing novelty to the system. He thereby relies firmly on the methodological individualism and subjectivism of the Austrian School, which is crucial to understand why innovations are not introduced to the market simultaneously by all firms.

At the heart of Schumpeter’s behavioural assumptions about entrepreneurship, one can find an ability to imagine possible alternative states, but also the persistence to overcome manifold economic, psychological and social barriers.

There are numerous examples to demonstrate the enduring influence of Schumpeter’s theory of entrepreneurship. To give the most recent one, Ahmad and Seymour (2008, p. 14) put it at the core of the new OECD definition of entrepreneurship as the “enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes, or markets.”

Adding the emphasis that “clearly, not all businesses are entrepreneurial” (ibid. p. 13), the OECD made a deliberate choice with far reaching consequences. Taking sides for the Schumpeterian concept implies that the more general opportunity seeking behaviour of the Hayek-Kirzner type is cast outside. The current OECD definition is thus vulnerable to the critique, that entrepreneurs are alert to all kind of profit opportunities, not just those from innovation.

5. Knowledge based Fortune maker:

Among other approaches to entrepreneurship, maybe the most influential concept stems from the field of human capital theory. Its founder, Theodore Schultz (1975) highlights the function of enhancing efficiency through moves towards the current technology frontier,
which is continuously upset by exogenous technological changes, for example from publicly funded R&D or innovations produced in other sectors of the economy. He therefore emphasizes ‘imitative’ entrepreneurship, which is characterized by the adoption of exogenously changing technologies. Schultz postulates the ‘ability to deal with disequilibria’ as the distinguishing personal characteristic of entrepreneurs. Arguing that this ability can be enhanced by education and experience, he also invokes the particular responsibility for educational policies

Baumol (1993, 2002) particularly stressed the role of entrepreneurial initiative in the process of imitation and technology transfer. Also Casson et al. (2006, p. 9) integrate certain aspects of the human capital approach by defining entrepreneurship as “a skill in processing information in connection with judgemental decisions.” But the following three examples highlight the enduring impact of Schultz on contemporary human capital models of entrepreneurship more explicitly. Schmitz (1989) as well as Holmes and Schmitz (1990) build strongly on the notion of imitative entrepreneurship, assuming exogenous opportunities which (as an inevitable but unexplained product of the dynamic growth process) continuously arise in the form of disequilibria.

In the model of Schmitz (1989) spillovers in the accumulation of knowledge cause economies to grow faster with a higher proportion of imitating entrepreneurs who implement the current techniques. In the model of Holmes and Schmitz (1990) people with greater entrepreneurial abilities specialise in the development of new products (in response to exogenous technological breakthroughs), e.g. by starting a new business, but can transfer that business to another person at later stages. This business transfer, which either might take place within a firm (e.g. shifting responsibilities among internal divisions) or by selling a company after its successful introduction, ultimately serves the division of labour between people with differential entrepreneurial abilities.

6. Returns on Efforts orientation:

Defining entrepreneurs “to be persons who are ingenious and creative in finding ways that add to their own wealth, power, and prestige,” Baumol (1990, p. 897) forcefully argues that the structure of incentives can direct opportunity-seeking behaviour into very different activities, some of them adding value to the total product of the economy, others just shifting rents between market participants. Because the latter occur at a cost but produce no additional value, they are not only unproductive but even dysfunctional from the viewpoint of the economy at large. Economic policy is therefore responsible for defining the rules of the game such that opportunity-seeking abilities are channelled into productive value-creating as opposed to mere rent-shifting activities.

Baumol’s definition of entrepreneurship includes all kinds of opportunity-seeking behaviour. He thus reminds us that the same opportunity seeking forces, which the various entrepreneurship theories generally consider to be beneficial to society, can have a serious downside, if the rules that govern the market are badly specified or lack proper enforcement. For the purpose of many empirical studies, the concept is certainly too broad to become operational, which might explain why in the new OECD definition Ahmad and Seymour (2008) restrict entrepreneurship to purely value creating activities.
Finally, we must address two delicate questions concerning the precise locus of entrepreneurship. The first question regards the permanence of behavioural characteristics. Schumpeter and others, who apply his narrower definition of innovative entrepreneurship, have argued that as entrepreneurial success leads to the building and subsequent expansion of organisations, the entrepreneurial resources of the founder are likely to become absorbed by management responsibilities in the later stages of its development. According to this view, entrepreneurship cannot be an occupational category, but is restricted to those who establish novel combinations—with the start-up of a new business considered to be its purest manifestation. Consequently, many empirical studies of entrepreneurship are concerned with start-ups and new venture creation.

A different concept appears in the models of occupational choice, which treat all the self-employed (or employers, more narrowly) as entrepreneurs. Entrepreneurship thus corresponds to the broader functions of general opportunity recognition and risk bearing, but as an empirical entity it is restricted to people who run an independent business.

This leads to the second question, which regards the role of entrepreneurship within the many large corporations that are not run by an independent founder, owner, and manager. Here Schumpeter takes the broader viewpoint. From his functional perspective, it is not only the independent business owners who are responsible for entrepreneurial activities. Equating entrepreneurship with business leadership he explicitly acknowledges that the entrepreneurs “may be the manager or some other employee.” However, championing an endogenous model of innovation, he needs to explain what the pecuniary incentives for entrepreneurial initiative among a company’s salaried personnel are. Rather vaguely, Schumpeter explains that in addition to the prospect of earning a higher salaried income, these business leaders tend to be driven by a strive for professional excellence and peer recognition. Consequently, Schumpeter (1939) points at the dilution of the entrepreneurial profit motive in the process of transformation from what he calls ‘competitive’ to ‘trustified capitalism’.

The above explanation emphasises that shareholders delegate the entrepreneurial function to the top-level executives in the same way as they do with the functions of general management. Cast in modern terminology, these persons are frequently referred to as ‘intrapreneurs’ and stock options and other performance related payments are the means to give them a share in the company’s residual profit. However, this simple transposition of the individual entrepreneur into the firm does not satisfy, especially when compared to more sophisticated studies of internal venture creation that deliberately take into account the organisational context of entrepreneurial activity within the firm. For example, Burgelman (1983a, b) pioneered the concept of ‘corporate entrepreneurship’. In his model, first the ‘structural context’ is set-up by top-level executives who aim at keeping novel initiatives in line with the current concept of corporate strategy. Second, ‘induced strategic behaviour’ represents those initiatives that fit within the existing categories and correspond to the firm's strategic planning. Finally, he postulates the existence of ‘autonomous strategic behaviour’, which is largely outside the firm's current concept of strategy, and for which the strategic context still needs to be determined. Burgelman argues that the latter typically emerges at intermediate levels of the management hierarchy, where new ventures are a high-
risk/high-reward personal strategy for advancement into the upper ranks of the firm organisation with an according rise in status and pay.

Once we acknowledge that the various theories of entrepreneurship in the economics literature offer essential but only partial explanations of the phenomenon, we face two basic options. The first is to add as many important characteristics provided by these concepts and try to amalgate them into one single concept.

Wennekers and Thurik (1999: 46) have probably provided the most elaborate statement of such an all-inclusive general definition:

‘Entrepreneurship is the manifest ability and willingness of individuals, on their own, in teams, within and outside existing organisations to perceive and create new economic opportunities (new products, new production methods, new organisational schemes and new product-market combinations), and to introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions’. We are at liberty to add to the above definition “by making use of the entrepreneurial abilities in the individuals” and the rationales have been provided in the earlier discussion of this review paper.

Conclusion:

The Darwin theory states the survival of the fittest. The resources are shrinking and have become scarce. The situation warrants every individual to find his or her own ways of survival. The survival through Value creation out of the existing resources and value enhancement of the products and services are warranted. This calls for sound decision making in terms of the technology options, opportunity identification, internal and external consistency between the organization and environment. Proper understanding of the combination and outcome of individual skills of the entrepreneur, entrepreneurial tasks and ecosystem of operation would make us to understand the meaning of Entrepreneurship.

Reference:


Shane, S., Eckhardt, J., “The individual-opportunity nexus,” in Acs, Z.J. , and Audretsch, D.B. (eds),


***