Are entrepreneurs born or made

Business, Entrepreneurship

Executive Summary

Entrepreneurship is the recognition or creation of an opportunity, coupled with action by an individual or group of individuals, to form a social, intrapreneurial, lifestyle, middle-market, or highly-liquid venture. Venkataraman (1997) explains entrepreneurship as the nexus of the presence of lucrative opportunities and enterprising individuals. The decision to act is often generated by a genesis moment motivated by some personal external dynamic. The success orfailureof such a venture is highly determinable by personal behaviors practiced by the entrepreneurs, and by theenvironmentin which the entrepreneur operates. The important entrepreneurial behaviors are self-awareness, self-discipline, accountability, intellectual honesty, and intellectual curiosity. These behaviors may or may not be intrinsic to the entrepreneur. A strong system of personal values and beliefs serves as the foundation for these behaviors. In order to critically examine the question whether entrepreneurs are born or made, the paper analyzes the history of entrepreneurship, nature and main characteristics of this phenomenon as defined by numerous theories and essence of entrepreneurial process.

Introduction

America's booming entrepreneurial sector is responsible for much of today's economic prosperity. Entrepreneurs take advantage of new wealth-creating opportunities that arise daily from constant change. This phenomenon—creating opportunity from change—has been part of the Americanculturesince the 19th century Industrial Revolution. Today, an entrepreneurial renaissance is transforming American business and society.

And its very success creates new challenges and opportunities for American policymakers (Von Bargen, 2003, p. 315).

The statement by Von Bargen serves to introduce the importance of entrepreneurship in creating prosperity and advancing living conditions for everyone. Certainly, entrepreneurship is a familiar term, and all of us are aware of successful entrepreneurs such as Bill Gates or Richard Branson whose endeavors have become legend. However, the literature shows that scholars have yet to agree on anacademicdefinition of exactly what is entrepreneurship, or who are entrepreneurs and where they come from? Despite its importance and significance in economic growth and welfare, the literature review provides evidence of the above claim that academicians do not agree on a scholarly definition and research domain for this important topic. This lack of structure has severely limited progress in its study and creates complexity for academicians and policy makers alike.

As review of literature suggests, some modern scholars believe that entrepreneurship has existed since organized societal behavior began. For example, the early behavior by tribal leaders in Melanesia to organize and lead their followers to create well-being through gaining new territory, control of favored fishing grounds, and creating structured defense mechanisms against potential enemies may all be crude examples of what we now know as entrepreneurship. Fourteenth century economists made the first scholarly recognition of the notion of entrepreneurship, although they did not call it that, as they observed the economic activity that developed as Europe emerged from feudal societies. They noted that in feudal societies, trade was nonexistent, as goods were produced and distributed inside closed kingdoms controlled by some system of fealty. The innovations and inventions led to the demise of feudal systems by facilitating increased trade, adventurers who sought out resources, new kinds of economic systems, means of monetary exchange, the creation of the means of documenting the resultant transactions, and even systems of law to enforce property rights of traders (Keat & Young, 2006). Economists of the time observed these phenomena and began to document what we now call entrepreneurship.

Just as in the industrial age, the 20th century saw explosion of entrepreneurial behavior and activity - the scientific revolution. The development of the scientific method led to technologies that literally changed the way people lived. The advancements in physics led to X-rays, antibiotics, and even the deciphering of the genetic code. In electronics, researchers developed solid-state circuitry, the underlyingsciencefor digital computing. Communicationtechnologysaw significant scientific revolution in the invention of the telephone and the radio. Later the collision of computing technology and communication technology saw the implementation of the Internet. The advances in aerospace and in transportation gave us wide-bodied aircraft and interstate highways, making travel more affordable for most citizens. The benefit to humanity of all of these advancements is self-evident.

For example, during this period, the world's population more than quadrupled from 1. 6 billion to more than 6 billion, economic output increased by 15 times, the workweek shrunk by 1 ? days, the workplace became more open for women, and some diseases were greatly controlled or even eliminated (Keat & Young, 2006). During the scientific revolution the identification of the inventor and innovator and the entrepreneur became somewhat disjointed. For example, Microsoft did not invent software for the personal computer, yet the company enabled its availability for all. The evolution of Apple was similar. As the story goes, Steve Jobs toured the Xerox research facility in Menlo Park, California in 1979 and saw a computer with an experimental graphical user interface (GUI). Xerox did not see a large market for this technology. Nevertheless, Jobs was quick to see the potential for GUI and sold the revolutionary Apple Macintosh in the 1980s. The technologies of the 20th century were so encompassing and complex that large organizations needed to be formed for their implementation. There are more examples of this phenomenon than there is room to enumerate them; Federal Express, Charles Schwab, Wal-Mart, and many others formed large organizations and brought new and innovative services and products to consumers. This trend of innovation and invention is continuing, and even accelerating in the 21st century. For example, radio took 38 years to reach 50 million users, while the Internet took just 5 years.

There is substantial anecdotal and empirical evidence of the significance of entrepreneurship as a field of study. First, entrepreneurs improve quality of life by creating new technologies and services that make life easier, increase productivity, provide more entertainment, improvehealth, and enhance communications. Entrepreneurs are responsible for more than 67% of all inventions and 95% of radical innovations since World War II (Timmons, 1994). Second, entrepreneurs create employment. The United States Government Small Business Administration data show that small business formation (the essence of entrepreneurship) accounts for the majority of net new job growth in the U. S. economy. Gartner (1989) notes that from September 1992 through March 2005 firms with fewer than 500 employees accounted, on average, for 65% of quarterly net employment growth, representing 13. 5 million jobs out of 20. 6 million new jobs created by the entire private sector. Further evidence of the importance of entrepreneurship results from the groundbreaking research of Arnold Birch (1987). Birch debunked the notion that large corporations were the drivers of economic growth, thereby providing confirmation of the importance of entrepreneurship. Using data from Dun and Bradstreet, Birch analyzed 12 million businesses from 1969 to 1986 and discovered that small firms accounted for 88% of all new jobs.

Entrepreneurship Theories

Perhaps the first entrepreneurial behavior existed in primitive societies. In fact, some scholars speculate that the big man phenomenon in Melanesian society, or that the adventurer notion in feudal societies are examples of early entrepreneurial behavior. However, economists provide the first scholarly work into developing theory of entrepreneurship. Most scholars divide the work by these economists into Classical (to about 1850), Neoclassical (to about 1950), and Modern (to about 1980) streams. The Modern stream is significant, as it introduced entrepreneurial theory to the behavioral sciences.

The investigation into the history of classical entrepreneurial theory begins with the origin of the word. The derivation of the word entrepreneur is from the French words entre and preneur, literally meaning to take between or to undertake (Bird & West, 1997). The nature of the meanings of these underlying French words is consistent with early theory, which is credited to Richard Cantillon (1755), who characterized the role of entrepreneurs as intermediaries who undertook the risks of the circulation and exchange of goods and merchandise as well as their production. Cantillon was an Irish merchant operating in Paris who wrote and did business during the political and economic transition from the feudal system in Europe. Entrepreneurial theory may have had its beginnings during this period, as there were a number of disruptive technological advances that stimulated and facilitated a freer form of economic activity, supplanting the feudal system.

These innovations included the invention of movable type by Johan Gutenberg in 1455, and the introduction of double entry bookkeeping by Pacioli in 1494. Other advances included the development of advanced agricultural techniques during the 15th century such as three-field cropping, the adoption of improved metallurgical techniques promulgated by Biringuccio in 1540, and the invention of a portable mechanical clock and a viable telescope by the Huygens brothers in 1654 and 1656. While not directly addressing entrepreneurial theory, Adam Smith (1776) identified famous concepts that not only became the foundation for modern economic theory, but also permanently connected economic and entrepreneurial theory. Smith promulgated the idea of the three economic forces: land, labor, and capital; the concept of the invisible hand of the marketplace; and the division of labor. At the same time, Smith created the notion of projectors, which he defined as those individuals who carry on projects for profits. Heilbroner (1999) draws our attention to a question raised by Smith's

The Theory of Moral Sentiments that is germane to the concept of entrepreneurship: “ for what purpose is all the toil and bustle of this world? What is the end of avarice and ambition, of the pursuit of wealth, power, and pre-eminence?” (p. 73). Although Smith’s contribution to economic thought is unparalleled and unquestioned, his concept of projectors does not and could not totally explain wholly new forms of production, or why new investment in radically innovative, different, and new processes or products are undertaken.

The Austrian school of economics later did much to clarify the concept of the entrepreneur. The founder of the Austrian school of economics was Carl Menger (1840–1921). Menger advanced the subjective theory of value, which refuted the labor theory of value. Menger showed that goods acquired their value not because of the amount of labor used in producing them, but because of their ability to satisfy people’s wants. If the value of goods is determined by the importance of the wants they satisfy, then the value of labor (and other inputs of production) also is determined by the value of these wants and needs (Menger, 1883). He further asserted that the driving force in the change in the relative value of goods is entrepreneurial activity, which he defined:

Entrepreneurial activity includes

(a) obtaining information about the economic situation;

(b) economic calculation—all the various computations that must be made if a production process is to be efficient (provided that it is economic in other respects);

(c) the act of will by which goods of higher order (or goods in general—under conditions of developed commerce, where any economic good can be exchanged for any other) are assigned to a particular production process; and finally

(d) supervision of the execution of the production plan so that it may be carried through asas economicallys possible (Menger, 1883, p. 160).

Menger's contribution to entrepreneurship theory, as demonstrated from the above quotation, was that any economic phenomenon in general and entrepreneurial economic theory in particular must contain an epistemology of methodical individual behavior. This thinking provides an important insight into the theory of entrepreneurship and an opening to the field to study by other disciplines such aspsychology.

Perhaps the economist credited with the most notable contribution to entrepreneurial theory is Joseph Schumpeter (1883–1950). Building upon Menger's definition of goods and the neoclassical description of combining land, labor, and capital to produce such goods, Schumpeter developed a working hypothesis for the nature of entrepreneurship as creative innovation (Schumpeter, 1934). Schumpeter drew a distinction between invention and innovation by pointing out that entrepreneurs innovate, not just by figuring out how to use inventions, but also by introducing new means of production, new products, and new forms of organization. These innovations, he argued, take just as much skill and daring as does the process of invention. Innovation by the entrepreneur, argued Schumpeter, led to creative destruction, as innovations caused old inventories, ideas, technologies, skills, and equipment to become obsolete (Schumpeter, 1975). The question, as

Schumpeter (1934) saw it, was not “ how capitalism administers existing structures…[but] how it creates and destroys them” (p. 66). This creative destruction, he believed, caused entrepreneurs to seek monopolies through their innovations, and that the continuous progress from this process improved standards of living for everyone. An example Schumpeter developed to illustrate this point was drawn from the production and pricing of aluminum by the Aluminum Company of America (ALCOA). In 1929, ALCOA produced 103, 400 metric tons of aluminum, up from 30 metric tons in 1890, but the price of aluminum had fallen to only 8. 8% of the 1890 level adjusted for inflation (Henderson, 2005).

Until the end of Schumpeter’s work, the development of theory in entrepreneurship largely was through the work of economists; tended to be cumulative, with each advancement building upon previous effort; and was generally easily organized. Post-Schumpeter, the literature becomes more fragmented and more difficult to review. Landstrom (1999) divides post-Schumpeter developments into two categories: theHarvardtradition, based, with some modification, upon Schumpeter’s views, as later developed by Arthur Cole; and the human action tradition, largely based upon the work of von Hayek and von Mises.

The Harvard tradition was that entrepreneurship consisted of three dimensions (Landstrom, 1999): changes in the economic system, creation of organizations as a means for the commercialization of innovations, and an acceptance of the fact that the entrepreneurial task was to create profits through the production and distribution of goods and services. The last point tends to relegate entrepreneurs to a particular segment of society. Arthur H.

Cole, the Harvard economist, strengthened and broadened the Schumpeter position by asserting that the entrepreneurial role had to be included in economic theory. Cole maintained that for any economic theory to be realistic it must consider the entrepreneur as the catalyst (Landstrom, 1999). He further insisted that the study of entrepreneurship must include the use of research methodologies from other disciplines. He further segmented the field of study in entrepreneurship into the study of entrepreneurial structure, the study ofmotivation, and the study of the process of entrepreneurial change (Landstrom, 1999).

Arnold McClelland (1917–1998), a psychologist at Harvard University, presented the first empirical studies of entrepreneurship based on behavioral science theory in his groundbreaking work " The Achieving Society" (McClelland, 1961). McClelland built upon the work of Max Weber, who analyzed the interaction between the culture and economic development of a society. He developed Weber's thinking into the premise that norms and values of the Protestant moral code prevailing in the society of the Western world caused a shift toward self-reliance. This self-reliance generated the development of a learned behavior, the need for achievement (McClelland, 1961). Through a large number of experimentally conducted studies, McClelland correlated a society's need for achievement and its economic development. He then extrapolated characteristics of entrepreneurial behavior into a theory of the psychological characteristics of individual entrepreneurs. McClelland identified entrepreneurial traits as a high need for achievement, having strong self-confidence, possessing independent problem-solving skills, a preference for situations of moderate risk, actively seeking feedback, and accepting individualresponsibility(McClelland, 1961).

Landstrom (1999) segregates the behavioral science approach to the study of entrepreneurship into two research traditions: analytically oriented research, and psychoanalytically oriented research. Analytical research attempts to identify the qualities of an entrepreneur, while psychoanalytical research (predicated upon the assumption that entrepreneurial qualities, in fact, exist) takes the view that this entrepreneurial behavior is the result of experiences of early youth. Other researchers have demonstrated that entrepreneurs are social beings, impacted by their environment, and the products of their period, and even more important, their region or location. Yet another approach in the psychologically oriented tradition is that in which researchers assume that an analysis of the intrinsic qualities of entrepreneurs produces the best understanding of entrepreneurial behavior. These intrinsic qualities are the result of early life experiences such as an unhappyfamilybackground or other psychosocial problems (Ketz de Vries, 1997).

The Entrepreneurial Process

The multidisciplinary nature of current research has led many post behaviorist scholars to view entrepreneurial activity as a process of sociological, personal, and environmental factors involving an innovation, a triggering event, implementation, and growth (Shane, 2003). Shane points out that the efforts to provide a conceptual framework for entrepreneurship invariably require a multidisciplinary approach, and that many classical researchers such as Schumpeter (1934) even viewed entrepreneurship in this manner. Shane (2003) goes on to say, “ these authors saw the economic framework of entrepreneurship as demanding certain characteristics of entrepreneurs best explained by psychology andsociology” (p. 10). This paper will focus on elements of the entrepreneurial process such as opportunity recognition, risk and uncertainty, the start-up process, social networks, teams, and knowledge, using aspects of the Shane framework.

Opportunity Recognition (OR) is a fundamental beginning activity of the entrepreneurial process, as well as a recurring step in the life cycle of all businesses. Scholars point out that OR is more of a process than an event and view the combining of resources to exploit an opportunity as central to the concept of entrepreneurship. Hills & Singh, (2004) define OR as perceiving a possibility for new profit potential through either founding a new venture or improving an existing venture. Some researchers believe that the willingness to bear risk and deal with uncertainty is one of the defining characteristics of the entrepreneur. The scholarly literature in this area suggests that one of the roles of the entrepreneur is to bear risks that others avoid. Some economists maintain that less risk-averse individuals are more likely to become entrepreneurs. Empirical studies on the topic have shown mixed results, with some supporting the claim and others uncovering mixed results (Schiller & Crewson, 1997).

The creation of any new venture is truly a social endeavor. While economic conditions, financial resources, and product or service innovations may create new market opportunities, the creation of new companies requires specific and purposeful entrepreneurial social behavior. Social networks play an important role in the emergence of entrepreneurial organizations (Shane and Cable, 2002). The quality of an entrepreneur's network often determines his or her success in critical start-up activities such as raising venture capital. The study of networks stems from classic literature in economics and sociology and shows how social structure could influence markets. Research has shown that diverse social networks are most beneficial, offering entrepreneurs a broad range of points of view (Burt, 1992), and that entrepreneurial environment are unique in that they often exhibit thriving and supportive networks that provide the institutional fabric and linkage between entrepreneurs and centers of knowledge.

Conclusion

Entrepreneurship is the recognition or creation of an opportunity, coupled with action by an individual or group of individuals, to form a social, intrapreneurial, lifestyle, middle-market, or highly-liquid venture. The decision to act is often generated by a genesis moment motivated by some personal external dynamic. The success or failure of such a venture is highly determinable by personal behaviors practiced by the entrepreneurs, and by the environment in which the entrepreneur operates. The important entrepreneurial behaviors are self-awareness, self-discipline, accountability, intellectual honesty, and intellectual curiosity. These behaviors may or may not be intrinsic to the entrepreneur. A strong system of personal values and beliefs serves as the foundation for these behaviors.

The environment in which the entrepreneur acts can be thought of as an ecological system. There are several factors most important for this ecology. First, the existence of suitable legal and social systems that protect property rights, contain well-defined business law, adequately regulate public trading of securities, and provides a system of taxation that promotes entrepreneurial behavior. Second, the entrepreneurial environment should contain a capableeducationsystem to provide trained employees and a research university to provide sources of innovation. Third, the presence of a growing economy is required that provides adequate disposable personal income to purchase the entrepreneurs’ goods or services.

Read also why did the interstate commerce commission have difficulty enforcing reforms

Although a great deal of the above definition is available in the literature, its presence is fragmented. Venkataraman (1997) explains entrepreneurship as the nexus of the presence of lucrative opportunities and enterprising individuals. Other researchers define the concept through economic tasks and roles such as assumption of risk, innovation, arbitrageur, organizer, leader, marketer, or speculator (Kirzner, 1983). Gartner (1990) and Morris et al. (1994) identified themes from the literature and their interviews of academicians and professionals that are similar to those of the present research: innovation, organization creation, creating value, profit or not for profit, growth, uniqueness, risk taking, ownership, and pursuit of opportunities. Perhaps the findings most similar to the present study are from Shane and Venkataraman (2000), who define entrepreneurship as, “ any activity that involves the discovery, evaluation, and exploitation of opportunities to introduce new goods and services, ways of organizing, markets, processes, and raw materials through organizing methods not previously existing” (p. 176).

References

Bird, B., & West, G. P. 1997, Winter. Time and entrepreneurship. Entrepreneurship Theory and Practice, 5–9.

Birch, D. L. 1987. Job creation in America: How the smallest companies put the most people to work. New York: Free Press.

Burt, R. S. 1992. Structural holes: The social structure of competition. Cambridge, MA: Harvard University Press.

Gartner, W. B. 1989, Fall. Some suggestions for research on entrepreneurial traits and characteristics. Entrepreneurship Theory and Practice, 27–37.

Gartner, W. B. 1990. What are we talking about when we are talking about entrepreneurship? Journal of Business Venturing, 8, 231–239.

Heilbroner, R. L. 1999. The worldly philosophers. New York: Touchstone.

Henderson, D. R. 2005. Biography of Joseph Alois Schumpeter. Retrieved December 7, 2008, from http://www. econlib. org/library/Enc/bios/Schumpeter. html

Hills, G. E., & Singh, R. P. 2004. Opportunity recognition. In W. B. Gartner, K. G. Shaver, N. M. Carter, & P. D. Reynolds (Eds.), Handbook of entrepreneurial dynamics (pp. 259–272). Thousand Oaks, CA: Sage Publications.

Keat, P. G., & Young, P. K. Y. 2006. Managerial economics: Economic tools for decision makers (5th ed.). Saddle River, NJ: Pearson Prentice Hall.

Ketz de Vries, M. F. R. 1997. The entrepreneurialpersonality. Journal of Management Studies, 14, 34–57.

Kirzner, I. M. 1983. Entrepreneurs and the entrepreneurial function: A commentary. In J. Ronen (Ed.), Entrepreneurship (pp. 77-79). Lexington, MA: Lexington Books

Landstrom, H. 1999, Fall. The roots of entrepreneurship research. The New England Journal of Entrepreneurship, 2, 9–20.

McClelland, D. C. 1961. The achieving society. Princeton, NJ: Van Nostrand.

Menger, C. 1883. Investigation into the method of the social sciences with special references to economics. New York: New York University Press.

Morris, M. H., Lewis, P. I., & Sexton, D. L. 1994, Winter. Reconceptualizing

entrepreneurship: An input-output perspective. Advanced Management Journal, 9, 21–31.

Schumpeter, J. A. 1934. The theory of economic development: An inquiry into profits, capital, credit, interest, and the business cycle. Cambridge, MA: Harvard University Press. Schumpeter, J. A. 1975. Capitalism, socialism, and democracy. New York: Harper & Row.

Schiller, B. R., & Crewson, P. E. 1997. Entrepreneurial origins: A longitudinal study inquiry. Economic Inquiry, 35, 523–531.

Shane, S. 2003. A general theory of entrepreneurship. Northampton, MA: Edward Elgar Publishing.

Shane, S., & Cable, D. 2002. Network ties, reputation, and the financing of new ventures. Management Science, 48(3), 364–381.

Shane, S., & Venkataraman, S. 2000. The promise of entrepreneurship as a field of research. Academy of Management Review, 25(1), 217–226.

Timmons, J. A. 1978. Characteristics and role demands of entrepreneurship. American Journal of Small Business, 3(1), 5–17.

Venkataraman, S. 1997. The distinctive domain of entrepreneurship research: An editor’s perspective. In J. A. Katz & R. H. Brockhaus (Eds.), Advances in entrepreneurship: Firm emergence, and growth (pp. 119–138). Greenwich, CT: JAI Press.

Von Bargen, P., Freedman, D., Pages, E. R. 2003. The rise of the entrepreneurial society. Economic Development Quarterly 17, 4, 315-324.