

# [Competing views of the entrepreneur](https://assignbuster.com/competing-views-of-the-entrepreneur/)

The term entrepreneur has become to have a broad definition over the years, with many authors debating over the types of characteristics that make up a person who can be classed as entrepreneurial. The word originally came from the French meaning 'one who takes between' but over the years the term has developed with varying definitions from academic literature, the media and often people classed as entrepreneurs themselves, causing great difficulty in finding a universal definition.

In the late 18th Century, Cantillion and Say from the French school of thought were amongst the first to recognise the role of the entrepreneur. Cantillion first defined entrepreneurs as a 'risk taker', buying at a certain price and selling at an uncertain price. (Cited in Blaug 1986: 220) Jean-Baptiste Say backed this up by stating entrepreneurs are 'the pivot of the economy, a vehicle for economic change. Deakins and Freel (2009). In the years to come, further concepts of entrepreneurs were developed and argued amongst academics. By examining the differing opinions from a broad spectrum of authors since the role was first distinguished, through the years where the meaning has become diverse and arguments have surfaced over the true meaning of entrepreneurship, I hope to make clear whether the term is so unclear to render it worthless or find some way of giving it some true common definition in today's society.

To investigate the varying opinions and definitions of the entrepreneur successfully, it is important to compare views on all aspects of being an entrepreneur. By Looking into how entrepreneurs have ideas for new ventures, the effects on the economy, the number of entrepreneurs and the types of ideas they have and ways they become entrepreneurial.

As a starting point it seems all academics and speakers on the subject regard entrepreneurs as 'opportunity spotters' Shapero A (1975) develops this further stating 'In almost all of the definitions, there is agreement that it includes initiative taking, organising and reorganising of social and economic mechanisms to turn resources and situations to practical account and the acceptance of risk or failure' Muzyka and Birley (2000: 31) add to this idea stating 'No one should call themselves a successful entrepreneur until they have captured an opportunity'.

The basis of entrepreneurial debates is based around two main perspectives from contrasting authors of the Austrian school of thought; these include the Kirznerian perspective founded by Israel Kirzner and the Schumpeterian perspective introduced by Joseph Schumpeter. The origin of this long standing debate was around information and whether or not entrepreneurial opportunities were derived from new information (Schumpeter 1934) or access to previously inaccessible information. (Kirzner 1973)

Kirzner explains how people use the information they possess to come to decisions about the best way of combining their resources in forming a good or service offering to a market. However if this combination of resources is not operating to full efficiency, there is potential to use a different combination of resources in order to make a greater profit. Gaglio and Katz (2001) consolidate this idea by explaining how entrepreneurial opportunities involve the creation or identification of new ends and means that have gone unnoticed by other market participants.

However the conflicting Schumpeterian view focuses on new information, arguing that changes in technology, political forces, regulation, macro-economic factors and social trends create new information, used to create a new combination of resources to generate increased profits. (Schumpeter 1934). For example deregulation in the airline industry as Thompson (2004: 301) explains when new airlines were allowed to fly into and out of Heathrow for the first time since 1977, it allowed access to new information for potential entrants to penetrate the market. Furthermore improvements in technological processes have led to entrepreneurial activity in the evolution of music players for example, from the audio cassette player through to the mass multimedia players of today, such as the IPod.

Schultz (1975) argues that entrepreneurship is an equilibrating process, whereby situations of disequilibria caused by market participants not operating at maximum efficiency are dealt with by entrepreneurs acting on access to the necessary information to bring about equilibrium. Very much like Kirzner (1973) who both state that the entrepreneur reallocates resources using the most efficient method. However dissimilar to Kirzner, Schultz argues that the process takes time and equilibrium is often brought back about by trial and error or human resource investment. (Iversen et al 2008)

Klein and Cook (2005: 4) explained this in their research on the human capital approach to entrepreneurship, using farmers as an example of how they must deal with a sequence of many differing changes, especially in such an atomistic industry, making any adjustments much lengthier.

In stark contrast to this approach, Schumpeter (1934) argued that entrepreneurship brings about the process of creative destruction, which Ellison (2002: 136) defines as 'the dynamic disequilibrium wrought by the innovating entrepreneur, with his creative rather than adaptive responses to opportunities.' Schumpeter suggested that entrepreneurs disrupt the existing system by shifting production constraints and brining about new technology which puts an economy into disequilibrium. Swedburg (2000: 46) further explains Schumpeter's theory of entrepreneurship by stating that the entrepreneur puts together a new combination; combining already existing materials and thereby produces something novel and innovative. However Steyaert and Hjorth (2004) explained how Schumpeter's Disequilibrium 'reflects the existence of informational asymmetry about new sources of profit potential' meaning that certain groups of people might have access to information ahead of others which opens up opportunities. Knight (1921) argued that if change could be predicted producers could plan ahead and thereby efficiently eliminate any profit potential. As Mises (1949: 297) develops this stating how, profit opportunities arise from changes unforeseen by the majority.

Schumpeter (1934) used his creative destruction theory to proclaim the temporariness of the entrepreneur, he assumed that entrepreneurship was a temporary attribute to an individual, as a wave of creative destruction that displaced old methods resulted in brisk imitation by competitors. Parker (2004: 41) explained how after creative destruction, ultimately stability would be restored and entrepreneurship would reach a temporary cessation before the next wave of creative destruction. McDaniel (2002) agreed with Schumpeter's idea in that when a new product enters the market that is new and unique is gives the entrepreneur a temporary position as monopolist. Conversely Scranton (1993) puts forward the notion of serial entrepreneurs and there existence since the dawn of industrialisation. Serial entrepreneurs are those who constantly buy and sell businesses to stay entrepreneurial. Hall (1995) narrows this broad definition proposing how the individual owns one business after another but only own one at a time. This type of entrepreneur challenges Schumpeter's 'temporary entrepreneur' and suggests that individuals can be constantly entrepreneurial

Theorists further debate the frequency of entrepreneurial opportunities and how and why individuals decide to go from employees to employers in an entrepreneurial manner. Chapman and Marquis (1912: 293) were amongst the first to investigate employing classes being recruited from wage earning classes. Schumpeter (1961: 102) argued that entrepreneurship was a rare occurrence, as it stems from innovation, the ability to carry out new combinations. However in contrast Kirzner (1979) explained how entrepreneurial acts were much more common. Aldrich (1999) agreed with Kirzners statement due to the fact that most opportunities are constructive to established ways, which links back to argument on entrepreneurship being an equilibrating or dis-equilibrating process.

When an entrepreneur decides to exploit an opportunity, again there is no universal definition on their motives. Oxenfeldt (1943: 109) points out that 'real' entrepreneurs confine their adventures to lines of business that they were previously engaged in as an employer or employee. Knight (1921) agrees stating 'Those with prior experience in an industry as a customer or supplier often have a better understanding of how to meet demand conditions in that market place.' However as Hamilton and Harper (1994) argue, this goes against the theoretical entrepreneur as 'omniscient, profit-orientated, opportunistic and versatile'. Nonetheless as versatile as an entrepreneur might be, Baumol (1993) highlights that when people cannot fully know the full range of options facing them, the calculation of an optimum within a given set of constraints is impossible

Mark Casson has tried to develop a modern theory of entrepreneurship, by fusing together entrepreneurial attributes and theories of many of the older authors. One major area of his work was in the supply of entrepreneurs. Casson (1982) distinguished between two groups of entrepreneurs, those who value their leisure at less than the prevailing real wage and those who value it more. He explains how the latter group have a strong chance of becoming an entrepreneur, if the returns of entrepreneurship rises above the real wage rate. Eisenhauer's (1995) model of the decision to become an entrepreneur is very much like Cassons as it is also based on the expected utility derived from income and the working conditions of employment vs self-employment. However Casson (1982) stressed that any supply of entrepreneurs are 'qualified entrepreneurs' who are defined as having access to the necessary resources in order to back their thought, such as wealth, contacts or the relevant financing in place, therefore for Casson, entrepreneurship is much more of a resource, whereby firms or individuals with the capital can invest in individuals with entrepreneurial ability. A real life example of this would be the BBC's Dragon's Den programme whereby successful entrepreneurs who have created multi-millionaire empires, invest their masses of capital, in smaller scale entrepreneurs looking for investment in their ideas.

Kirzner (1973) has a differing opinion, he expresses that entrepreneurship is not a factor of production and entrepreneurial alertness is non deployable and costless, meaning that no resources are needed to detect entrepreneurial opportunities, he also discarded the use of supply and demand curves with entrepreneurs.

As much as opportunities can be spotted, the supply of entrepreneurs to an economy depends on their willingness to act upon them. McClelland (1961) identified that a major factor in an individuals willingness to act was motivation and the need for it in achievement.

When individuals decide to exploit opportunities, there are further debates between academics over the types of entrepreneur. Schumpeter had the stance that only certain, extraordinary individuals have the ability to be entrepreneurial, Hanusch and Pyka (2007: 289) explained his point in that 'extraordinary effort required to work out a scheme of innovation, the need to escape from deeply embedded modes of thinking and acting and the task of inducing many other people to make changes.' Marshall (1994) defined his entrepreneur as someone who had a thorough understanding of their industry and are natural leaders, claiming that very few can possess all of the skills required to be entrepreneurial to a high enough extent, very much like Schumpeters extraordinary person. However, unlike Schumpeter, Marshall (1994) implies that people can be taught to acquire the skills necessary to be an entrepreneur. Schumpeter (1934: 85) goes on to describe his entrepreneur as rational, egotistical and self-centred to an extent that is peculiar and rare by nature. Barnes (2000: 65) described this as an 'individual in setting' in that this self centeredness is a disconnection from the constraints of tradition and habit that allow new combinations to commence. Dissimilarly to this is the view of Kirzner (1973) who thought that anybody can be an entrepreneur, since it presupposes no special initial good fortune in the form of valuable assets as the new entrepreneur is not protected at all. In today's society , many entrepreneurs agree with Kirzner, explaining how anyone can become an entrepreneur, one of Britain's most popular entrepreneurs Duncan Bannatyne wrote an autobiography entitled 'Anyone can do it' which highlights how he rose to success and makes references to how it is possible for others today.

Knight (1921) states only that the entrepreneur is a 'risk taker' meaning that the entrepreneur is prepared to take on an element of risk for the chance of a reward of profit, this being the revenue generated for taking on uncertainty. Knight developed his idea of the entrepreneur being a 'risk taker' by clarifying the difference between risk and uncertainty. Risk being where differing outcomes can be forecasted to some degree with uncertainty being where outcomes cannot be envisaged. Brockhaus (1980b) disagreed with Knight, he could not see any difference between the risk taking levels of new entrepreneurs from those of managers or the general public. Schumpeter (1934) agreed and expressed that risk can just be part of business ownership and not an entrepreneurial attribute; he expressed how it was the lender of capital who was at risk rather than the entrepreneur. Although Hull et al (1980) found in their study that entrepreneurs have a greater tendency to take risks, with Palmer (1971) suggesting that the testing of entrepreneurs be directed most towards the measurement of an individuals perception and handling of a risk. Say (1803) also highlighted the notion of the entrepreneur taking risk in bringing different factors of production together, with Say (1803) being one of the first to regognise the role of the entrepreneur and the characteristic of being a 'risk taker' still being used in literature today, this can be seen as a strong characteristic of any entrepreneur.

George Shackle (1970) described the entrepreneur as creative and imaginative. Rickets (2002) developed this idea stating that the imaginative idea comes from the exercise of developing alternative future states of affairs. Shackle's View (1970) centralises on the role of uncertainty and how the imaginative entrepreneur can visualise how best to arrange resources in a changing uncertain world. In other words uncertainty gives rise to opportunities. Shackles work was based around Cantillion's early ideas of entrepreneurship being buying at a certain price and selling at an uncertain price. However Earl (2003: 68) strongly criticised Shackles ideas stating how this creativeness that he emphasises should be more focused to the work of Schumpeter who brought about creative destruction and the idea of the entrepreneur being extra-ordinary and special as appose to the intermediary idea of authors such as Cantillion and Kirzner.

One of the main areas of debate between academics is over the type of act that can be classed as entrepreneurial. Schumpeter (1934) is strongly remembered for his theory of the entrepreneur being an innovator, this relates to the idea's discussed before regarding Schumpeter's (1934) entrepreneur shifting production constraints and bringing about new processes and technologies, he defined entrepreneurs as the 'creators of change' in the sense that they 'have a vision' and the urge to be successful in achieving it. An example of this could be James Dyson who produced the worlds first bag-less vacuum cleaner which in tern rendered the Hoover almost worthless. Fagerburg and Mowery (2005) made an important distinction between invention and innovation, invention being the first occurrence of an idea, with innovation being the first attempt to carry it out into practice. Edquist (1997) defined technical innovations as the introduction of new knowledge or new combinations of existing knowledge into the economy, from this Sternburg (2000) highlighted the importance of innovation, supporting Schumpeter's idea of the innovating entrepreneur, with his stance of business growth stemming from the company's ability to constantly innovate. Drucker (1985) like Schumpeter also, agues that innovation is the tool of entrepreneurs, however he goes on, that entrepreneurship is also about improving total quality and adding value. An example of this being the McDonald's chain, in that they did not create anything new when the business began in 1940, offering the same as many American restaurants at the time. However through the application of management concepts, most notably their 'Speedy service system' which added value and created a new industry as such, to Drucker (1985), this is entrepreneurship.

Kirzner (1973) had very different views on the roles of his entrepreneur in that he believed they were alert to profitable opportunities for exchange. His idea of the entrepreneur was one of an intermediary in a supply chain, in other words a middle man between individuals. As previously mentioned the Kirznerian (1973) entrepreneur seeks imbalances in the market and aims to eradicate them with their entrepreneurial action. An example of a Kirznerian entrepreneurial action was the launch of Accommodationforstudents. com, founded by two students in 2000, who noticed imbalances in the market place through the personal difficulties they had in finding accommodation throughout their studies. This validates Marshall's (1994) theory that having a thorough understanding of the industry is necessary to entrepreneurial success. Kirzner (1978) explained how his ideas were often based around those of Ludwig Von Mises after being his assistant for some years. Mises (1951) explains how profit emerges from the entrepreneur that can judge the future prices of products more than others do and therefore buy any factors of production at low prices before they increase. It is also alleged that this activity takes place within an economy with limited resources and production confines.

This can be illustrated using the production possibility frontier below. Kirzner (1973) argues that activities take place within the curve and his entrepreneur pushes activities to their maximum to reach the edge. Yet Schumpeter (1934) suggests that the entrepreneur pushes the curve outwards with the introduction of new technologies and methods as production possibilities in the economy therefore increase. An example of this in action could be the now ever mainstream use of the internet in business operations, over the past ten years this has allowed mass expansion of business operations with companies being able to operate in global markets.

Landstrom (2005: 15)

Knights (1921) theory on risk and uncertainty being part of the entrepreneurial personality inspired other academics to investigate entrepreneurship from small firm management. Deakins and Freel (2009) use Knights assumptions of an entrepreneur being responsible for ones own actions, to make the proposition that managers who assume this responsibility are consequently performing entrepreneurial functions. However Shailer (1994: 34) states how managers do not necessarily fit any of the current popular definitions of entrepreneur and concludes that whilst 90% of owner managers are obliged to fill the role as capitalist, only 20-40% will act as entrepreneurs under common definitions. Abundant amounts of research has been carried out between so called managers and entrepreneurs, a study by Miner et al (1989) found that entrepreneurs scored significantly higher on self-achievement than managers. Furthermore Mill (1848) appeared to believe that the inclusion of risk bearing distinguished the term entrepreneur from manager, Shackle (1955) approved and highlighted the uncertainty element of the entrepreneurial process. One example of this might be in terms of wages, an employed manager of a firm is guaranteed a wage, whereas entrepreneurs have the uncertainty of their businesses performance.

Ricketts (2002: 80) comments on how once a venture is established, the scope for entrepreneurship does not cease, as continuous change in the economy requires adaptation by the firm, which results in the need for some entrepreneurial talent; Meaning that entrepreneurship can emerge from within companies. Galbraith (1967) introduced the concept of large firms being more successful than small firms in technology based industries, Schumpeter's (1934) theory developed on this theme, with his notion of entrepreneurs emerging from within businesses, initiating change from inside a firm. He called these individuals Intrapreneurs. His idea was based on the fact that larger organisations have better infrastructure in place; established research and development facilities, high levels of available finance, connections with stakeholders of the business and the companies experiences. This idea was supported by Wu (1989) who described the firm as a collection of entrepreneurs. However drawbacks of the Intrapreneur can also exist, by transferring some power, to unproven individuals could perhaps be risky and put your reputation at threat also successful intrapreneurs may very well demand larger proportions of profit if they see their ideas taking off successfully. (Virtual Advisor 2009). An example of intrapreneurship having problems occurred at Xeron, whereby employees working on an idea were discarded when they suggested new software. The employees went on to develop this and created Adobe, one of the most popular digital post-script readers. Although at Google, employees are given 20% of their time to come up with new ideas which as resulted in services such as Gmail and Adsense, rendering the scheme a success.

http://sgentrepreneurs. com/events/2009/01/24/after-ceo-unplugged-intrapreneurship-at-nus-entrepreneurship-week/

Miner et al (1989) and other authors views on managers and entrepreneurs

http://books. google. co. uk/books? id= 0FxO\_Wsh30kC&pg= PA100&dq= entrepreneurs+as+managers#v= onepage&q= entrepreneurs%20as%20managers&f= false

http://www. jstor. org/pss/255515 RISK, PALMER AND MILL QUOTES

Wu (1989) describes a firm as a coalition of entrepreneurs, which agrees a production policy, an organisational structure, and a rule for sharing the residual profits. (page 80 of Ricketts)

Galbraith (1967) concept of large firms more successful that small firms in technology based industries, however this concept is more associated with Schumpeter

Schumpeter argued that there were 5 sources of entrepreneurial change:

1) The introduction of a new or improved good

2) The introduction of a new method of production

3) The opening of a new market

4) The exploitation of a new source of supply

5) The re-organisation of business management processes. (1934)

DYSON: Schumpeterian

Following Audretsch (2002), we argue that the absence of a generally accepted definition of entrepreneurship reflects that it is a multidimensional concept, involving aspects of uncertainty-bearing, innovation, opportunity-seeking, management and enterprising individuals.

Main thoughts

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