

# Entrepreneurship and economic development.



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Discuss the relationship between entrepreneurship, innovation and economic development. What roles do creativity and problem solving play in this relationship? Refer to both theory and examples from the business world to support your case. It seems inevitable that there will be a strong link between entrepreneurship, innovation and economic development and that creativity and problem solving play a key part in this. It is important, however, to first have a better understanding of the definition of these terms.

This in itself will give us a better understanding of the relationship between them. Entrepreneurship is particularly difficult to define. Entrepreneurship is the result of what entrepreneurs do and their impact on society. Defining the characteristics of an entrepreneur is where it gets difficult. Jean Baptiste Say remarked in the 19th century that an entrepreneur is an economic agent who “ unites all means of production” and the possesses the judgement to “ estimate the importance of the product, the probable amount of demand and the means of its production”.

This is a good start but it is Joseph Schumpeter who really focuses on defining the missing characteristics of JB Say’s work. Schumpeter’s work focuses on the need for entrepreneurs to be innovative, different and unique. “ Whatever the type, everyone is an entrepreneur only when he actually carries out a new combinations and loses that character as soon as he has built up his business”. This famous quote from Schumpeter shows us his belief in the need for innovation and change for it to be considered entrepreneurship.

Harvey Leibenstein added to this definition in the 20th century by stating the need for an entrepreneur to be an opportunity spotter or a “ gap-filler”.

Pulling together the various ideas from these prominent thinkers we can define an entrepreneur as someone who unites means of production in a profitable, innovative way that fills a gap in the market. This seems like a good general definition. Entrepreneurship is therefore the impact on society of the individuals with these characteristics. Innovation and creativity should be slightly easier to define.

The Oxford English dictionary defines innovation as “ the action or process of innovating” whilst defining innovating as “ making changes in something established, especially by introducing new methods, ideas, or products”. This is an accurate description of the process of change that, as we have noted earlier, is central to the ideas of entrepreneurship. It is important here to differentiate between creativity and innovation. Creativity refers to the formative process where ideas are made but not necessarily the implementation of these ideas.

Innovation is the acceptance of these ideas. This ideas changing the what was once established in their favour. The Segway, is a great example of a very creative idea that cannot yet be termed innovative. It is not until the Segway truly challenges the established forms of transport that get us from A to B that we can consider it an innovative idea. Closely linked with economic growth, economic development is defined by the World Bank as “ qualitative change and restructuring in a country’s economy in connection with technological and social progress”.

Oregon State University defines it as “ the institutional changes made to promote economic betterment. It is the social organizational changes made to promote growth in an economy. ” Both definitions refer to the idea of social change or progress which results in an improvement in a country’s economic outlook. Again the theme of change and innovation is central here. Returning to Joseph Schumpeter’s work allows us to study the relationship between these three concepts. Schumpeter’s theory of economic development is key to linking the three.

This theory highlights the role of the entrepreneur as the catalyst for economic development. He portrayed any economy as a collection of businesses and enterprises where each represented a certain combination of the factors of production available in the economy. These factors of production can be anything from labour to land to finance. Schumpeter therefore speculates that, due to the nature of this relationship between enterprise and the factors of production, economic development can only occur when a new combination of these factors is introduced.

Schumpeter went on to group these changes into either gradual or discrete change. Gradual change has a minimal effect on economic activity. This could mean improving design or a change presentation of the product or process. Discrete change on the other hand refers to a fundamental change in a product or process that cannot be traced to previous versions. Whether gradual or discrete the needed innovation to create new combinations of the factors of production needs some sort of spark. Schumpeter traces the origin of this spark back to the entrepreneur.

Schumpeter's theory of economic development therefore solidifies the suspected inextricable links between entrepreneurship, innovation and economic development. Discrete change leads us on to the need for creativity to spark economic development. Creativity and problem solving are absolutely pivotal in this relationship between entrepreneurship, innovation and economic development. Entrepreneurship of the Schumpeter innovative breed requires creative problem solving to create economic development.

Innovation and creativity go hand in hand. Making changes to the established processes as is the definition of innovation requires creativity. Established processes are not normally the worst solution. Quite the opposite. Established solutions to problems tend to be the best solution that has been found so far. It is the nature of the Leibenstein style entrepreneur to find the opportunity by noticing the problem in these established methods and to solve these issues in a creative, innovative way.

This is where new products are invented, where new services are created, where new processes are employed and where real economic development takes place. The creation of a the digital music player is an interesting case to study here. A huge market today, dominated by Apple's iPods, this market was at points believed would never take off. Many could not comprehend that people would go to the effort to upload their CDs on to their computers to then upload this music on to their digital music player rather than just put the put the CD in their personal CD player.

It was entrepreneurs such as Kane Kramer who saw this doubt not as just a risk but a business opportunity. Later taken on in a big way by Steve Jobs and Apple, the market for personal digital music players is enormous and added a completely new market to the economy as a result of discrete change. Innovation in this sense could be seen as a chaotic and often unpredictable economic process, which some theorists believe cannot be modeled using the equilibrium based analytical methods used in economic theory.

Schumpeter again addresses this idea eloquently in his theory of “creative destruction”. He acknowledged that real economic gains through entrepreneurship can be tough as a result of people being afraid of the unfamiliar but argues that it is the successful entrepreneur who breaks down this resistance and “deconstructs” this economic stagnation in a creative manner. In this it can be seen as the entrepreneur’s job to make a mockery of market equilibriums and to make the most of their creativity and problem solving ability.

This may not be the case though as it is not just catalytic change as described by Schumpeter where entrepreneurs can drive economic change. The Austrian school of economic thinking that sees the economy as a dynamic and ever changing balance between the forces of supply and demand also have a key role for the entrepreneur. This is again in being the opportunity spotter. This time it is the job of the entrepreneur to gauge when levels of supply and demand change and to make profit off this up until the point where resources are reallocated to meet market equilibrium again.

In this sense it is the entrepreneur that ensures that shortages and surpluses in the economy do not occur. This again ensures economic development can occur and shows entrepreneurs solving a problem in the economic system. It is therefore a combination of these two types of entrepreneurs that help to drive economic development through a process of innovation and creative problem solving. It is the job of the catalytic, Schumpeter-style entrepreneur to challenge economic “equilibriums”, to drive change and make creative progress that pushes so called economic barriers.

It is then the job of the allocating, Austrian school-style entrepreneur to be vigilant to changes in market forces and respond in a profitable way to ensure market efficiency is achieved. Both types therefore ensure economic development continues and the nature of these entrepreneurs innovative and creative problem solving in doing this show us how these theories are all interlinked and never far away from one another. To conclude the relationship between entrepreneurship, innovation and economic development could not be much stronger.

They are interlinked and even rely on one another. Economic development requires innovation to occur. Entrepreneurs are driven by the desire to innovate so are more often than not the driving force behind this innovation. Therefore entrepreneurs are central to advancements in the economy and drive forward economic development. Creativity and problem solving are pivotal in the relationship between the three. Both are characteristics of successful entrepreneurs. Innovation is often a combination of the two and almost always the continuation of a creative spark.

As we have seen, innovation and entrepreneurs are key to economic development so creativity and problem solving play a fundamental role in the relationship between these ideas. Another innovator type is the intrapreneur, who perform entrepreneurial functions, but bear less risk, because they work in an existing organization. These people innovate, but bear less risk, and also may not get rewards in proportion to the success of the new venture, but they certainly are change agents Another innovator type is the intrapreneur, who perform entrepreneurial functions, but bear less risk, because they work in an existing organization.

These people innovate, but bear less risk, and also may not get rewards in proportion to the success of the new venture, but they certainly are change agents References Oxford Dictionary definition of Innovating

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