

# The ideas of schumpeter on entrepreneurship and innovation

[Technology](#)



Joseph Alois Schumpeter was born in Austria in 1883 to parents who owned a textile industry. He thus became very familiar with business at an early age later entering the University of Vienna to study economics and law. In his career, Schumpeter took a professorship in economics at various universities and served as a minister of finance in 1919 and was made president of American economic association in 1948. He died in 1950 at the age of 67.

Schumpeter was an academician, a public speaker and a prolific writer.

Among his works are: business cycles (1939), capitalism, socialism and democracy (Ed 1976), history of economic analysis (1954), the great economists (1951), and the theory of economic development (1954).

Schumpeter's ideas Schumpeter busied himself with the ideas of entrepreneurship and innovation in a market economy. He observed that the business world had become a ground for creative destruction thus coining the phrase " the gales of creative destruction". Simply put, he observed that a market economy ensures growth by allowing new, better companies to topple the old.

These ideas attracted much attention in his 1942 book; capitalism, socialism and democracy. In this book Schumpeter believed that capitalism would be destroyed by its own success. He believed a sizable intellectual class that made its living by exploiting the systems of private property with all the freedom necessary for its existence. In the same book, he believed that capitalism sparked entrepreneurship. Indeed he was on of the first to lay out a clear concept of entrepreneurship. In general terms, entrepreneurship has different meanings.

The earliest definition was " the entrepreneur shifts economic resources out of an area of lower productivity into an area of higher productivity" Drucker 1986 pg 19. Germany meaning " Enternehner" is the person who owns and manages a business. English meaning- " It is s new business starter" it is usually associated with small businesses. For Schumpeter, he saw entrepreneurship as innovation and defined the entrepreneur as " someone who makes a new combination of already existing materials and forces" (ULMC Module Pg 5. 5).

Entrepreneurship he says consists of making innovations rather than inventions. He thus distinguishes inventions from entrepreneur innovations. He pointed out that entrepreneurs innovate not just by figuring out how to use inventions, but also by introducing new means of production, new products, new forms of organisations, new markets. Theses innovations he argues takes up much skill and dexterity as the process of invention. Entrepreneurship therefore is an activity that revolves around innovation. For one ceases to be an entrepreneur the moment he stops innovating.

This position is echoed in peters and waterman's book 'in search of excellence' where they point out that the key characteristic of successful companies lies in autonomy and entrepreneurship. When organisations stop to innovate they argue, then competition takes them by surprise and they cease to be successful organisation. Innovation Accordingly innovation is not part of mainstream economics since it tends to assume a given technology and a given product. (Drucker) For Schumpeter innovation is about new

combination i. e. bringing together what already exists into a new combination to create something new and fashionable.

A classical example to illustrate this point would be Henry Ford and the Assembly line technology. Ford didn't invent anything new with the assembly line. He transformed a rudimentary system that was being used in the meat packing into something fashionable the making of cars. This was a technological innovation rather than an invention. Innovation by the entrepreneur urges Schumpeter leads to "gales of creative destruction" as innovations cause old inventories, ideas, technologies, skills and equipment to become obsolete very quickly and rapidly.

Many examples are apparent especially in modern times of rapid technological innovations where products are characterised by short life spans. For example in car manufacturing, almost every four months there is a new model being introduced by various manufactures. This implies that the latest model makes the old model lose value almost instantly. And this scenario stretches across a range of manufacturing products and services. The competitions for new products and services are so acute that billions of pounds are spent annually in research and development because it looks the best way to survive in today's economic market.

Innovation in this case becomes central to capitalism as it provides it with dynamism and vitality. The issue as Schumpeter saw it was not how capitalism administers existing structures but how it creates and destroys them. The creative destruction he seemed to believe caused continuous progress and improved standards of living for everyone. On competition,

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Schumpeter argues that, it is the driving force for innovation. The popular view at the time that 'perfect competition was to maximise the well-being was unacceptable to Schumpeter. He regards this kind of competition as relatively un important.

He wrote " what counts is competition from new commodity, the new technology, the new source of supply, the new type of organisation, the new market... which strikes not at the margins of the profits and the output of the existing firms but at their foundation and their very lives. " (Schumpeter, capitalism, socialism, and democracy 1996, 92) According to his view some degree of monopoly was preferable to perfect competition. He argued that competition from innovation was " ever present threat that disciplines before it attacks" (Cole 28.

) He quoted an example of the aluminium company of America as a case of a monopoly that continuously innovated in order to retain its monopoly. By 1929, he cited the price of its product had fallen to only 8. 8% of its level in 1890, and its output had risen from 30 metric tones to 103, 400. (Ibid 103. ) Schumpeter's ideas visa avis organisations doing businesses in the 21st C. Schumpeter's ideas and his belief in the market economy are very much alive and empirical in organisations doing business in the 21st C. industries are more turbulent than ever before forcing organisations to innovate and come up with something new or exit the business.

Than ever before there are high levels of mergers and acquisitions, takeovers, joint ventures, and other forms of business growth strategies which are all indicative of the scale of innovation desired to do businesses

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today. The manufacturing and service industry are characterised by short product life cycles and huge budgets for R & D to cope with the unprecedented changes in customer tastes and preferences. The society has become addictive to the words 'new and fashion'. To satisfy the demand of such society whence, innovation is inevitable.