

# ["entrepreneurship it is presumed amongst experts that](https://assignbuster.com/entrepreneurship-it-is-presumed-amongst-experts-that/)

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“ Entrepreneurship and innovation are not the same, but successfulentrepreneurship requires innovation”. Entrepreneurship and innovation are twocommon concepts in the political discussion and are often mentioned asconditions for economic growth and sustainable development. In an increasinglydeveloping world where competitiveness amongst corporate companies is rising, many firms are encouraged to be innovative in order to gain or sustain acompetitive edge.

However, due to the deprivation of innovation in market conditions, it is presumed amongst experts that there may not be space for a significantdevelopment in the innovative field in the business future. In this essay I willreduce the existing ambiguity by describing the connection between innovationsand entrepreneurial activities and comparing and contrasting different economictheories of entrepreneurship, along with reference to examples of innovation inpractice.                                                                                                            It is important for us to consider how the term “ Entrepreneur” isdefined by different economists. Economics assumes that the sole interest forpeople entering and carrying out business is to make money. Richard Cantillonof the French School of Thought is credited for developing the first economic theoryof entrepreneurship in 1755.

He is known for being the “ first significantwriter to make frequent and obtrusive use of the term entrepreneur in asemblance of its modern form” (Herbert and Link, 2006, p. 589), and defined theentrepreneur as someone “ working for oneself by assuming a level of personalrisk”. Cantillon’s description of entrepreneurship is very different to themodern definitions we see today, his theory of entrepreneurship being thatentrepreneurs function by bearing risk under a theme of Uncertainty. Accordingto (Cantillon, 1931, p.

151), entrepreneurs will “ buy at a low price theproducts of the villages and will transport them to the Capital to be sold at ahigher price”. This highlights entrepreneurs as “ arbitrators”; acting onperceived opportunities to pursue profits. This idea is reiterated by Herbertand Link (1988, p.

21), stating that an “ important aspect of Cantillon’s theoryis that it stresses the function, not the personality of the entrepreneur”.  Upon evaluation of Cantillon’s theory ofentrepreneurship, it is evident that good judgemental and managerial skills areseen as greater qualities of the entrepreneur as opposed to an innovative mindset. Therefore, in order to remain a dominant force in the competitive market, it would necessary for the lead entrepreneur to acquire a team to provide theskill set lacked by the entrepreneur himself, most likely within the innovativeand creative fields. The German-Austrian School of Thought provides a very differentperspective of the characteristics of an entrepreneur. Joseph Schumpeter calledfor a different approach, in comparison to Cantillon for example, when defininghis entrepreneur.

He heavily emphasises the innovative characteristic as themain function of the entrepreneur, suggesting that an entrepreneur is theperson who is “ willing and able to convert a new idea or invention into asuccessful innovation”. Schumpeter however was more concerned with economicdevelopment rather than entrepreneurship, and stated that his entrepreneur isthe creator; one who causes market and economic change, as well asdisequilibrium. He was a firm believer that innovation played a vital role inentrepreneurship; with the introduction of newly generated innovative methods, old industries will have lost its usefulness, because these new methods ensureproduction is more efficient for positive economic growth. The productionmarket would be driven forward, and the firm would be able to produce more at alower cost. This can be further supported through a concept created bySchumpeter known as the “ gales of destruction”. He derived it from work by KarlMarx, and popularised it as a theory of economic innovation and the businesscycle. This concept is described by Schumpeter as the “ process of industrialmutation that incessantly revolutionises the economic structure from within, incessantly destroying the old one, incessantly creating a new one”(Schumpeter, Joseph. 1994, Capitalism, Socialism and Democracy, p.

82-83). As aresult of the growing innovative methods, many existing production processesand products would become outdated and worthless. This opens doors forcompetitive firms to imitate these fresh innovative ideas, resulting in a lossof profit for the original company if it was to stop innovating the existingproducts. A clear example of a company that utilises this method is Apple, withtheir ever growing range of iPhones. With the use of this cyclic process, Schumpeter was able to use entrepreneurship as a means to clarify economicgrowth and structural change.  The last main school of Thought is the Austrian School of Thought, which suggests a different definition of an entrepreneur. Israel Kirzner’s theoryof entrepreneurship explains the function of the man who pursues economicopportunities in the face of uncertainty. He describes “ alertness” as the fundamental quality of the entrepreneur, meaning that the entrepreneur has the ability to perceive new economicopportunities that haven’t been recognised by others.

This alertness however isdependent on knowledge; the entrepreneur’s alertness can be used to detectarbitrage opportunities, recognising that certain sectors of production areunder-priced, then proceeding to act on this knowledge to earn profit. Kirzner’s theory stands in sharp contrast to that ofSchumpeter’s theory, obtaining a vision of a market socio-economy, which aimsto enhance the entrepreneur’s pursuit of a personal goal through marketexchanges. Both Schumpeter and Kirzner see entrepreneurship aspurposive, as well as being the driving force of socio-economy, however interms of competition, Schumpeter’s system erodes newly created profits, whilstKirzner’s theory provides a motivation for alertness to new profitopportunities. This can highlight the idea that in Kirzner’s eyes, innovationand creativity are left as a secondary priority. The main aim is to seekopportunity before acting upon them, meaning that alertness is key in order todiscover profit opportunities when the market is in a state of disequilibrium. With the three main Schools of Thought taken into consideration, we can now look at some economic theories and how they each have made an impacton innovation in society today.

Following on from Schumpeter’s theory, taking an innovative stancewhen it comes to entrepreneurship can result in lasting value for society. Forexample, the role of an entrepreneur is still considered as a key responsibilitywhen it comes to the creation of jobs. If the entrepreneur is an innovativefigure, just like Schumpeter describes, the entrepreneur must enter the marketwith a whole new market segment, with new goods and services. As demandincreases, the company’s growth would increase, because of this innovativeedge.

Increased demand means that the company would need to employ more peopleto ensure efficient production. This in turn would create more jobs forsociety, and would aid in moving the economy forward and decreasingunemployment.  The use of innovative methods can also bring about a contributionto socio- economic development. For example, innovation can help alleviatesocial challenges, which encompass health and demographic challenges, and socialexclusion and inequalities, among others.

For example, innovation can helpelderly individuals remain healthier, live independently longer, and counteractthe diminishing of physical capabilities that become more prevalent with age. Innovation can also provide more personal, preventive health care products thatensures an improvement in the quality of human health. This can help reducedifferences in living standards between groups in society, because theseinnovations are in a sense cheaper and simplified versions of already existinggoods. This creates a long lasting, positive effect on society today.