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Economic Theories of Entrepreneurship

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What is entrepreneurship? Since the turn of the century, there has been increased global interest in entrepreneurship both by individual theorists and by institutions. This is significant because over the last quarter of a century there has been a remarkable renaissance in terms of the recognition of small firms' "centrality as a necessary competitive instrument in the development of a modern, vibrant and progressive economy" (Beaver and Prince, 2004, p. 34). The economics literature acknowledges the central role of entrepreneurs in economic development, the creation of wealth and evolutionary change. In the United Kingdom alone, over 5.2 million businesses are operating as of 2015; of those, 99% are SMEs, accounting for 14.5 million people in employed positions (Federation of Small Business, 2015). The literature suggests that it is entrepreneurs who are the driving force of such a revolution, in the form of an economic trend that is transforming and in some cases renewing economies worldwide, contributing not only to employment but also to economic, social and political stability. Therefore, it is vital to develop an understanding of the complex field of entrepreneurship by drawing on the early entrepreneurship literature, and by evaluating and understanding the wider contributions to the now-established distinctive economic theories of the entrepreneur.

An entrepreneurial definition

In the past, scholars have wondered, either "implicitly or explicitly", why anyone should study entrepreneurship (Shane and Venkataraman, 2000, p. 219). The phenomenon itself has been described as a "slippery concept", in that it is hard to work into a formal analysis. According to this view, "data are difficult to obtain, theory is underdeveloped, and findings to date are the same as those obtained in other areas of business" (Shane and Venkataraman, 2000, p. 219). The relatively recent transformation in entrepreneurship research

has come about because a body of knowledge has developed over the past few years, and in response, entrepreneurship theorists are now able to offer new and exciting reasons as to why scholars “should” study the topic (Bygrave, 2003, p. 2). However, to date, the phenomenon has only become established as a broad label under which “a hodgepodge of research is housed” (Shane and Venkataraman, 2000, p. 217), and the largest obstacle to creating a fuller understanding of the phenomenon has been the difficulty in arriving at a consensus in its definition. As a result, researchers have had trouble identifying the distinctive contribution of the field, thereby undermining its economic legitimacy (Shane and Venkataraman, 2000; and Bygrave, 2003).

In fact, over a long period of time economics literature had relatively little to say about entrepreneurship. Surprisingly it is now the social sciences that tend to deal directly with the contemporary economic reality of the entrepreneur (Rocha, 2012).

Essentially entrepreneurship is an economic phenomenon involving “a nexus of two phenomena: the presence of lucrative opportunities and the presence of enterprising individuals” (Shane and Venkataraman, 2000, p. 218): entrepreneurs prioritise the creation of wealth rather than its transfer.

Over the years scholars have provided numerous definitions of entrepreneurs each of which has differed in various respects. To date, most have defined the field solely in terms of:

- Who the entrepreneur is (Delmar, 2006)
- What they do (Venkataraman, 1997)
- Why they do the things they do (Davidsson, 2008)
- How they do the things they do (Garnter, 1985)
- Where they do it (Welter, 2011).

Some define entrepreneurship in terms of enterprising dispositions (Delmar, 2006), others look at it from a behavioural perspective (McClelland, 1961), while the majority focus on the processes (Moroz and Hindle, 2012), and the outcomes of entrepreneurial activities (Dimov 2011). Yet for many, the most striking characteristic of the phenomenon is its diversity (Gartner, 1985).

While the definitions presented above are at best incomplete it is important to recognize their distinctive contributions, each citing their own distinct set of “meaningful patterns” to understand the mystique of entrepreneurship.

Exercise

How would you define entrepreneurship? Note down your own definition.

The history of economic thought on the entrepreneur

In the opening sections of this chapter, the difficulty in defining entrepreneurship was discussed. We now turn to the entrepreneur themselves. Entrepreneurial strategies are not a twentieth-century phenomenon. When Marco Polo established trade routes to the Far East, he demonstrated the risk-taking behaviour we associate with entrepreneurship today (Osborne, 1995, p. 4) (Figure 2.1).



Figure 2.1: Marco Polo's trade routes

Source: aventalearning.com/content168staging/2008AmHistA/unit1/html/section_3_page_7.html

The 'fit' this explorer found between his skills and the environmental opportunity is a perfect illustration of entrepreneurial strategy, and in particular it is relevant to understanding entrepreneurship, with its increasing global scope (Osborne, 1995, p. 4). According to Hisrich, Peters and Shepherd (2005, p. 8), the "ability to innovate and create can be observed throughout history; although the fundamental tools may have changed the ability has been present in every civilization". For example, there are numerous examples of entrepreneurial behaviour dating as far back as Biblical times (for example, Jacob), through the Middle Ages (e.g. the merchant Ghini) to the Renaissance (e.g. the painter Carlo Crivelli) (Bolton and Thompson, 2000).

Exercise

Can you think of any other examples? Note down and justify five examples of entrepreneurial activity dating back fifty years.

The first proper noun for an entrepreneur emerged from the seventeenth-century French verb *entreprendre* (to undertake). The entrepreneur is, therefore, the 'undertaker', that is, someone who undertakes to make things happen (Kirby, 2003). This definition emphasises that entrepreneurs exercise a high degree of initiative and are willing to take a higher than average degree of risk, although such considerations can also be said to cover a wide range of occupations.

However, the true evolution of entrepreneurship was strongly influenced by a few key economists and analysts who are highlighted in Table 2.1, each of whom sought to provide a different role for the entrepreneur in society.

Date	Author	Concept
1755	Cantillon	Introduced the concept of entrepreneurs from <i>entreprendre</i> ('ability to take charge')
1803, 1817	Say	Emphasised the ability of the entrepreneur to 'marshal' resources in order to respond to unfulfilled opportunities
1871	Menger	Noted the ability of entrepreneurs to distinguish between 'economic goods' - those with a market or exchange value - and all others
1893	Ely and Hess	Attributed to entrepreneurs the ability to take integrated action in the enterprise as a whole, combining roles in capital, labour, enterprise and entrepreneur
1911, 1928	Schumpeter	Envisioned that entrepreneurs proactively 'created' opportunity using 'innovative combinations' which often included 'creative destruction' of passive or lethargic economic markets
1921	Knight	Suggested that entrepreneurs were concerned with 'efficiency' in economic factors by continually reducing waste, increasing savings and thereby creating value, implicitly understanding the opportunity-risk-award relationship
1948, 1952, 1967	Hayek	Continued the Austrian tradition of analytical entrepreneurs giving them capabilities of discovery and action, recognising the existence of information asymmetry which they could exploit
1973, 1979, 1997, 1999	Kirzner	Attributed to entrepreneurs a sense of 'alertness' to identify opportunities and exploit them accordingly
1974	Drucker	Attributed to entrepreneurs the capacity to 'foresee' market trends and make a timely response
1975, 1984, 1985	Shapero	Attributed 'judgement' ability to entrepreneurs, to identify 'credible opportunities' depending on two critical antecedents - perceptions of 'desirability' and 'feasibility' from both personal and social viewpoints

Table 2.1: Evolving entrepreneurs

The crucial role of the entrepreneur in economic theory was first identified by Richard Cantillon (1755), who identified that shifts in "demand and supply in a market create opportunities for buying cheaply and selling at a higher price and that this sort of arbitrage would bring equilibrium to competitive market" (Rocha, 2012, p. 4). He was the first to identify those who take advantage of these unrealized profit opportunities as "entrepreneurs" (Landström, 2005);