

DINAMICS OF THE ENTREPRENEURSHIP CONCEPT. LITERATURE REVIEW

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Abstract: *The purpose of this theoretical paper is to analyze the concept of entrepreneurship while following the approaches taken by scholars over time in this field of research. Four entrepreneurship theories which are relevant for the analysis and practice of entrepreneurship will be explained and compared. In a continuously and rapidly changing world, like the one today, information and knowledge seem to be of most interest for entrepreneurs. The current central element of entrepreneurship within the academic world is considered to be the notion of opportunity. Nonetheless, this has not always been the situation in entrepreneurship research and as a result, during this paper I will follow the evolution of entrepreneurship as a concept and I will point out a series of findings relevant for its analysis and practice. Consequently, I have considered choosing two theories focused on the notion of opportunity, namely Drucker's theory of entrepreneurship and Burt's theory of entrepreneurship. Additionally, I have used Schumpeter's theory of entrepreneurship because of its major influence over both the theoretical and practical aspects of entrepreneurship and von Hayek's theory of entrepreneurship because of its role in signaling the significance of practical knowledge within the research of entrepreneurship. Each of these four theories is analyzed and strengths and drawbacks are pointed out. The comparison which resumes the paper takes into consideration the theories authors' profiles, their backgrounds and the moment in time when the theories have been stated. It will be possible for the reader to observe that the concept of entrepreneurship has changed in time and implicitly the trend in entrepreneurship research has altered from a theoretical approach to a much more practical one. The main driver for this change was the business environment, which was forced to continuously search for improvement measures in order to survive. These improvement measures relied always on discovering new opportunities and therefore, nowadays the scholars worldwide consider the notion of opportunity to be the paramount element of entrepreneurship.*

Keywords: entrepreneurship; innovation; practical knowledge; network theory.

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1. Introduction : The Concept of Entrepreneurship

The concept of entrepreneurship has a very long history within the academic and business world. While the practice of entrepreneurship existed since the firsts trades between people occurred, the first attempt to define this concept was made during the 18th century by a French banker, namely Richard Cantillon. He argued that an entrepreneur is a person "willing to buy at a certain price and to sell at an uncertain price" (Cantillon, 1931). Another French author, that is Jean Baptiste Say, wrote around the beginning of the 19th century that an entrepreneur is the one to transfer economic resources from a sector with lower productivity into another one with higher productivity and better outcome (as cited in Dees et al., 1998). Since the 19th century, and once with the growing pace of world's economic development that took place after the Second World War, many different approaches

have been employed to analyze and describe the term of entrepreneurship. Because of its importance and implications over a large array of areas, like sociology, anthropology, psychology or economy the topic represented the subject of many studies and articles (Hebert and Link, 1989). The main findings upon entrepreneurship during the years can be ascribed to three important currents of research:

- The impacts and results of entrepreneurship, where the process of entrepreneurship has been analyzed as a motor of economic advancement
- The causes of entrepreneurship, where the entrepreneurs themselves have represented the subject of research, being observed moreover from a social and psychological point of view
- Entrepreneurship as a management process, where the main focus of research has been represented by organizations and how they are able to innovate and to continuously alter themselves in order to remain competitive on the market (Austin et al., 2006).

The hypothesis research of this paper builds on the idea that nowadays the main element of entrepreneurship is represented by the notion of opportunity. In what follows, we will present the historical evolution of the concept and the way it was approached by scholars over time.

2. Entrepreneurship Theories: Literature review.

2.1. Schumpeter's Theory of Entrepreneurship – Innovation and Entrepreneurship

In order to better understand the entrepreneurship's research evolution over time, a short description of relevant events during its history will be reminded. Therefore, after the early definition of the term by the 18th century's French authors, the research of entrepreneurship entered into a shadow period. This was due to the fact that a large number of economists, among which Walras, Ricardo or Marx, did not consider the entrepreneur as being relevant for their economic models and theories and therefore left it outside their findings (Swedberg, 2002). The situation was about to be entirely changed once with Joseph Schumpeter's studies upon the subject. The Austrian economist represents the main figure in the field of entrepreneurship research. By his studies, he demonstrated that the entrepreneur represents the agent of change inside an economy and that by its actions economic growth can be achieved (Swedberg, 2002). Moreover, Schumpeter presented the difference between innovation and invention (Schumpeter, 1934), argued that entrepreneurship consists of making innovations and that the status of entrepreneur is only acquired during the process of innovation. Notwithstanding its initial research directions, which can be considered to pertain to the first current of research stated earlier in the paper, in its last decade of entrepreneurship research, Schumpeter has underlined the fact that the theory of entrepreneurship ought to be build on "the actual activity of the entrepreneur", who could both be a single person or an organization (Schumpeter, 1934). Hence, the change of direction towards a more practical aspect in the research of the concept can be observed as far back as Schumpeter's period.

Overall, regarding the practicality of the entrepreneurship research, the most important feature of its studies was the very fact that they represented the cue toward a new way of analyzing the concept of entrepreneurship. As an example, Schumpeter continuously stressed the significance of bringing economic theory and economic history more close, in order to better understand entrepreneurship (Swedberg, 2002). Beside the suggestion mentioned earlier, there are also two typologies presented by Schumpeter, regarding the entrepreneurial behavior and the drivers of an entrepreneur which are considered to be of high relevance for the study of entrepreneurship practice. Hence, Schumpeter presented five types of entrepreneurial behavior:

- The introduction of a new good
- The introduction of a new method of production
- The opening of a new market
- The conquest of a new source of supply of raw material
- The creation of a new organization of an industry (Scherer, 1999)

And three main drivers for an entrepreneur:

- The will for power and independence
- The aim to triumph
- The happiness of creating (Swedberg, 2002)

He also clearly stated that money is not what decisively motivates an entrepreneur and that an entrepreneur is not an “economic man in the theoretical sense” (Swedberg, 2002). This point of view is in contrast with von Mises’ insight about the same subject. Ludwig von Mises, another Austrian economist saw entrepreneurship as an anticipation of an uncertain event and believed that money represents the only driver for an entrepreneur’s actions (von Mises, 1951). Von Mises is one of the few researchers of entrepreneurship who has underlined the role of entrepreneurial errors, about which he argues that represent also opportunities for the other entrepreneurs.

2.2. Friedrich von Hayek’s Theory of Entrepreneurship – Knowledge and Entrepreneurship

Friedrich von Hayek, also a neo-Austrian economist, has made an important contribution to the research of entrepreneurship throughout its entrepreneurship theory based on the use of knowledge and more specifically of practical knowledge. According to von Hayek, the deficit of knowledge represents the fundamental premise for the existence of entrepreneurship. It is important to stress that by deficit of knowledge, the author does not refer to an existing knowledge which lacks from the initial conditions and is later added on throughout the entrepreneurial process, but rather to a new type of knowledge which is developed with the help of this process. As von Hayek states, to be an entrepreneur implies a “discovery process” (Swedberg, 2002).

In an article written in the 1945 and called “The Use of Knowledge in Society”, Friedrich von Hayek brings an important and relevant critique of the trend in economic theory to minimize the importance of practical knowledge for economic actions (von Hayek, 1945). By practical knowledge in the sense presented by von Hayek, one can understand “the knowledge of practical circumstances of time and place” (Swedberg, 2002). Von Hayek’s goal of signaling the significance of practical knowledge represents an important step in the evolution of entrepreneurship’s research towards more practical perspectives. A similar view over the concept of entrepreneurship is brought by Monica Lindh de Montoya throughout its anthropological approach in the case study of a strawberries’ dealer. In its article, “Entrepreneurship and Anthropology: The Case Study of Freddy, the Strawberry Man”, she argues that a series of an entrepreneur’s actions are based on its capability to read cultural codes. By being aware of the practical information which defines a culture and its people and moreover by reading this information continuously during its actions, an entrepreneur can achieve success (Swedberg, 2002).

2.3. Peter Drucker’s Theory of Entrepreneurship – Opportunity and Entrepreneurship

A more recent theory of entrepreneurship, presented by Peter Drucker, follows the definition given by Say in the 19th century and adds to it the idea of opportunity. Therefore, the practical aspect of entrepreneurship’s research is embraced and a possibility of understanding the process of entrepreneurship is offered. Drucker argues that the entrepreneur is not necessarily the one to cause change, but is definitely the one to exploit the opportunities brought by change: “the entrepreneur always searches for change,

responds to it, and exploits it as an opportunity” (Dees et al., 1998). The concept of opportunity is encountered also in previous definitions of entrepreneurship, like in the one stated by Kirzner according to whom entrepreneurship means “alertness”(Kirzner, 1978) towards profit opportunities, but the major distinction which Drucker makes, is setting opportunity as a central element in defining entrepreneurship. For Drucker, the entrepreneur will always see the opportunities rather than the obstacles developed by change (Dees et al., 1998). In order to succeed, an entrepreneur has to be market oriented and moreover market driven (Drucker, 1985). Again this view is similar with von Hayek’s and Montoya’s point of view over the importance of practical knowledge in entrepreneurship. Drucker offers a definition for the systematic innovation which, according to him consists in “the purposeful and organized search for changes, and in the systematic analysis of the opportunities such changes might offer” (Drucker, 1985). Moreover, the same author also states a set of four fundamental areas where the process of entrepreneurship management requires clear policies and practices in order to become successful – these policies and practices are focused on the enterprise as an entrepreneur:

- The organization must be prepared to accept innovation and inclined to observe change as an opportunity rather than an obstacle
- A systematic appraisal of the company as entrepreneur and innovator is mandatory
- Practices pertaining to staff management, organizational structure management, rewards management are needed also for a successful entrepreneurial management
- There are specific actions that must not be taken under any circumstances (Drucker, 1985): managerial units and entrepreneurial units must not be mixed; by innovation one must not understand only diversification; it is recommended the avoidance of making a business entrepreneurial only by purchasing small entrepreneurial ventures (Drucker, 1985)

The theory of entrepreneurship centered on the concept of opportunity represents more or less the common point of view of current researchers within the field. Howard Stevenson, for example, is another theorist of entrepreneurship which adheres to this view. In its definition of entrepreneurship as “the pursuit of opportunity without regard to resources currently controlled” (Dees et al., 1998), he recognizes the idea of opportunity as being central for the process of entrepreneurship and moreover states that the current situation of a company, therefore including its current resources, does not represent an obstacle for the entrepreneur to pursuit a chance. This last argument helps to clearly differentiate between an entrepreneur and an administrative manager, the latter being tied up and focused on the firm’s current resources (Drucker, 1998).

2.4. Ronald Burt’s Theory of Entrepreneurship – Network and Entrepreneurship

Another approach towards the practice and analysis of entrepreneurship is offered by the sociologist Ronald Burt, throughout its network theory. According to him, entrepreneurial opportunities can be found in a person’s network if this is structured in a certain way (Swedberg, 2002). A network represents all the relationships and connections that one has with the others, no matter of their nature and characteristics. The concept of network, in Burt’s opinion is central to the term of social capital and suggests that there are two possible interpretations of it. On one hand a network can be considered important because it is the way which can lead to significant resources and opportunities and on the other hand a network can be considered important for the very fact that it in itself is a resource, able to offer better access, timing or chances. Considering the latter interpretation, the same author introduces a structural theory of entrepreneurship. Therefore, Burt argues that one can act as an entrepreneur only if it is in a position of

mediating between distinct members of its network. Moreover, the entrepreneurial opportunity, which is called by Burt “a structural hole” (Burt, 1995), will occur between two non-redundant contacts, meaning contacts between which no connection exists at the moment and as a result a third person from the network called “tertius gaudens” (Burt, 1995) will have the possibility to take chance of it (Burt, 1995).

In order to improve its network efficiency and implicitly its social capital, a person or enterprise should try to construct its network mainly with non-redundant contacts. In this way the costs of the network will be minimized, the structure will be optimal and the number of structural holes will increase. The fundamental benefit of a structural hole is the information and the access to a given situation which the tertius, namely the entrepreneur can obtain from its network. Hence, depending on the quality of its network structure, an entrepreneur can raise or diminish its rates of return (Burt, 1995).

Talking about entrepreneurial motivation and opportunity, within the same theory of entrepreneurship stated earlier, Burt argues that the type of network one constructs also represents an important driver for its behavior. Consequently, he concludes that “a network rich in entrepreneurial opportunity surrounds a player motivated to be entrepreneurial” (Swedberg, 2002) while “at the other extreme, a player innocent of entrepreneurial motive lives in a network devoid of entrepreneurial opportunity” (Swedberg, 2002).

3. Findings: A Comparison of the Four Theories

Although the four theories stated above focus on the same concept, namely entrepreneurship, there are a series of differences between them. First of all, their authors have distinct backgrounds. While Schumpeter and von Hayek were economists, Drucker was a writer and a consultant and Burt is a sociologist. The second major dissimilarity is represented by the time period when the theories have been elaborated. In the case of Schumpeter and von Hayek the theories were presented in the 1940s, while Drucker and Burt published their theories in the 1980s. As a result, the first two theories are more focused on the “why” and “who” of entrepreneurship, in contrast with the last two, which are focused on the “how” of entrepreneurship. Even though Schumpeter’s and von Hayek’s theories come from a period when the practical aspect of entrepreneurship was mainly disregarded, the two authors have succeeded to approach important aspects from the practice and analysis of entrepreneurship. Hence, Schumpeter noticed the significance of studying the actual activity of an entrepreneur for the future understanding of entrepreneurship, comprehended the difference between innovation and invention, stressed the fact that money is not the first driver for innovation and entrepreneurship or realized that not only private persons can act as entrepreneurs. Similarly, von Hayek apprehended the wrong treatment applied by entrepreneurship researchers to the practical knowledge and argued its fundamental contribution for the success of an entrepreneur or underlined the strong connection between new knowledge creation and entrepreneurship.

On the other hand, both Drucker and Burt presented their theories in a period when the shifts in entrepreneurship research toward the “how” question was already clear. Therefore, their findings within the field adhere to this trend. The two authors have centered their entrepreneurship theories on the concept of opportunity. Whilst Drucker offers a typology of opportunity sources, a guideline of practice for entrepreneurial management or states that an entrepreneur is not necessarily the change agent, Burt tries to explain with the help of its network theory how persons or enterprises can develop their social capital and how can discover opportunities and information and become successful entrepreneurs.

It is worth to underline that despite the fact that all the four authors recognize throughout their theories that entrepreneurship is of major importance for the overall economic health and point out some practical tools and aspects of entrepreneurship, Drucker and Burt, who are not economists, manage to get more close to the practice of entrepreneurship. Also, by taking into consideration the argument of Schumpeter that one has the status of entrepreneur only during the process of innovating, of bringing the new into life and therefore no one is entrepreneur forever, the shift in entrepreneurship research's focus from the qualities of the entrepreneur, which are permanent over one's life time, towards how entrepreneurship happens and how opportunities are spotted seems of more relevance for the future of this concept.

4. Conclusions

In order to conclude it must be stated that the trend in entrepreneurship research has changed over the years from a more theoretical focus toward a more practical one. This alteration was due to the new needs of the business world and throughout it scholars tried to keep up with the changes that took place in world's economies. Therefore, from the point of view of analysis and practice of entrepreneurship it can be observed that Schumpeter's theory and von Hayek's theory have a more limited insight, because for example they do not offer a clear guideline for the implementation of the entrepreneurship concept. This does not mean that both theories are not of fundamental importance for the following development of this concept. In fact, their main contribution to entrepreneurship research is the pioneering work within this field and the bases for the following findings. Regarding the Burt's and Drucker's theories, it can be seen that by explaining the concept of entrepreneurship with the help of the notion of opportunity, both of them offer a compelling understanding for the entrepreneurial process, while focusing more on its "how" side. Within a lately context of fast social networks and information technology development, the entrepreneur has access to a higher number of non-redundant contacts and thus to a greater range of opportunities (Scott, 2006). As a consequence, the initial hypothesis of this paper is sustained by the research trend in this area over the years and also by the way needs and liaisons have evolved in the business environment.

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