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“PUZZLE” OF ENTREPRENEURSHIP: SOME METHODOLOGICAL PERPLEXITIES

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***Abstract:** Study of entrepreneurship consists of many different research topics, which hardly can be synthesized into a coherent theory. As the time passes by, researchers keep on producing wide spectrum of theories concerning definition, origins, determinants and measures of entrepreneurship, as well as diverse explanations about its possible impact on economic development. Most of them usually agreed upon just a few things: a) entrepreneurial activity varies both across the countries and over time; b) neither individual (entrepreneurial efforts) nor environmental factors (supportiveness in environment) can solely determine the outcome of entrepreneurial activities. The purpose of this paper is to review some parts in the evolution of very concept of entrepreneurship in order to analyze: 1) what are the main causes producing changes in contemporary analyses of the subject; 2) do the changes in the concept represent departure (and in what direction) from Schumpeter's vision of entrepreneur (as innovator); 3) why neglecting or misunderstanding of Schumpeter's work might be counter-productive for progress in studies of entrepreneurship.*

***Keywords:** entrepreneurship, innovation, Schumpeter's concept of entrepreneur*

Instead of ordinary introduction

“We are standing on the shoulders of the giants who came before us – that is why we can see the horizon and look towards the sun”.¹

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¹ In spite of my not being able to recall either where I heard of this statement or who its author was, I consider the quoted (or paraphrased) words appropriate for one of paper's purposes – to express respect and admiration to Schumpeter's theory of entrepreneurship.

At the moment when I conceptualized the key ideas intended to be analyzed in this paper, they seemed so provoking and inspiring, that I was very proud of my being able to think them out. And although some perplexities crossed my mind, I did not bother why other researchers disregard and/or miss at least similar points. Simply, I was deceiving myself for couple of days that I revealed some unnoticed facts. Probably, I secretly hoped my approach to be labeled as a sort of entrepreneurial one. Of course, it turned out that I was misled. And it reminded me to the “old” truth: whenever one believes to find out something new and rare, it usually reflects the fact that he (she) either has not read appropriate literature enough or has not studied it properly. Becoming finally aware of potential as well as actual limits of my knowing the subject, I decided to moderate an overoptimistic enthusiasm which dominated in the abstract.

Being constrained by time and space, this analysis is far from being detailed evolution of entrepreneurship. It is rather a rough sketch of it, which reminds the audience of just a few well known approaches in the field. Also, it covers some (to my opinion) important elements of Schumpeter’s work, as well as dissonant contemporary interpretations of his ideas about entrepreneurship.² The reason for deciding on strictly theoretical approach is to make soft warning and/or reminding of its insufficient presence in the literature. At the same time, it represents a sort of appeal for returning to the “roots” (fundamentals) of entrepreneurial research. In that sense the main point remains unchanged: considering entrepreneurship, some important pieces of this “puzzle” are already contained in Schumpeter’s writings.

Individual *versus* social context in contemporary studies of entrepreneurship

Being simultaneously economic and social phenomenon, entrepreneurship is truly inspired subject of interest, which has attracted attention of researchers from diverse disciplines.³ That is why its meaningful analysis is supposed to include many different elements, covering variations and sequence of variations at individual as well as institutional level which might influence the process of entrepreneurial decision-making. What modern approaches offer in that regard?

² In doing so I had to rely either on translation of Schumpeter’s books into English or on secondary sources (like some interpretations of his ideas), which obviously made additional constraints to analysis of the problem.

³ In fact, analysis of entrepreneurship represents one of rare areas within economics where such approach is understood as even desirable.

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Thanks to the Global Entrepreneurship Monitor [8], as international research program annually dealing with national level of entrepreneurial activities, we are able to analyze development of entrepreneurship over time and compare current state of these activities across the countries. Also, there is eclectic approach which tries to sublimate many standpoints about the topic, regardless of the fact they originated from diverse perspectives and even different disciplines [9].

However, on theoretical level there have been and still are many problems regarding entrepreneurship. In spite of revitalized interest in this phenomenon, some authors [6; 7; 28] kept warning that increasing number of researches undertaken in this field during last two decades has not produced less confusion and better understanding of the problem. What are the main reasons for such state of affairs? First of all, some main contributions were somehow put aside regardless of the fact that some of them (as being complemented to several contemporary insights) could be very useful for (so far relatively modest) theoretical progress in the theory of entrepreneurship [26]. Second, different disciplines have a tendency to offer their own, unique and particular standpoint. In doing so, they usually ignored other perspectives, illuminating some part of entrepreneurial “puzzle” and, as a result, there is no coherent, multidimensional approach.⁴

Frankly speaking, it was more or less expected since the mainstream (neoclassical economic theory) mostly ignored the subject [18, p. 242]. That’s why entrepreneurship was either analyzed under the wing of organizational and managerial studies or outside economic science (with the exception of heterodox economy). And although multi-dimensional approach is certainly welcomed, insisting to cover many aspects of the problem by integration of factors into those shaping either demand or supply of entrepreneurship has always been difficult for several reasons. First of all, focus of analysis determines which (out of so many) definition of entrepreneurship is supported; second, a chosen definition itself significantly influences what indicators will be used to measure level of entrepreneurship across the countries and/or over different time periods; third, keeping in mind that indicators may refer to quite different aspects of entrepreneurship, their result are not comparable, that is we can’t make a proper analysis of countries’ achievements in that regard; fourth, empirical researches are usually founded on survey data, which hardly can be treated as reliable means for deriving valid conclusion about entrepreneurial activities.

⁴ Failure of numerous attempts to integrate different points of view seemed to be quite similar to famous story about blind men and elephant [7, pp. 28-37].

All the above-mentioned “shortcomings” seem to be present in every trial to measure one or another dimension of entrepreneurship. However, there is one, but key difference between GEM model and eclectic framework. The former is focused on opportunities an individual is faced with, as well as his (her) capabilities to make decisions and act in an entrepreneurial way; the latter does the same plus enriches the analysis by interconnecting more determinants of entrepreneurship, particularly those streaming from environmental influence [9].

Keeping in mind that some researchers prefer to analyze individuals and opportunities, whereas the others favor environmental context, it seems that further deepening of confusion can not be avoided. For example, insisting on precisely defined theoretical perspective [7, p. 30] represents a trial of returning entrepreneurship under “economics’ wing”, which is praiseworthy idea. At the same time it narrows the field of entrepreneurship by focusing exclusively to individual’s ability to discover and exploit opportunities. Also, it may be true that trying to cover so many different topics prevented researchers to direct properly their affinities and pushed entrepreneurship phenomenon into another extreme: hyper-production of papers in which identity of the entrepreneur can’t be recognized. However, the claim that spreading of the analysis beyond individual level weakens theory of entrepreneurship is certainly questionable. Besides, focusing on the personality of entrepreneur, these behavioral and cognitive approaches totally ignored the broader (environmental) context in favor of individual (and firm level) analysis, which is (particularly nowadays) almost inadmissible mistake.

What are the arguments supporting predominant significance of social context in studies of entrepreneurship? Entrepreneurial “spirit” consists of different ingredients and that is why it is very difficult to clarify which of them may be the prime “mover” or further catalyst of that spirit. It is no longer matter of pure innovativeness of an individual whether any proposed project would be acceptable for society out of, at least, two reasons. First of all, even being innovative is dependent on different features of national culture [11]. In that sense, the countries being more inclined to individualism and less to uncertainty avoidance than others seem, almost by definition, to be preferable environment for innovative-oriented individual. These countries are well “equipped” for creation of entrepreneurial opportunities (i.e. they are able to foster entrepreneurship). Of course, it doesn’t mean that such type of entrepreneurial feature can not exist somewhere else. It certainly appears, but since entrepreneurial dynamics significantly depends on economic development [29; 4; 1] overall conditions

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necessary for its flourishing may not be favorable. Second, although we can leave a natural tendency of an individual to behave in a particular way apart, the importance of other kind of environmental influence can't be neglected. In other words, even if we assume that individuals can be predisposed to become entrepreneurs regardless of their surrounding, the possibility of applying innovative ideas into the practice is still dependent on other factors. This means that having essential characteristics required for an entrepreneur is still different from the ability of proper using and transferring those features into concrete and positive outcomes. For example, even if there exists some “natural rate of entrepreneurship” [29], it also depends in large extent on laws concerning the level of economic development. Besides, the web of informal relationships an individual is capable to establish (social network) seems to be more significant for his (her) success; also, development of entrepreneurship can be determined by influence (either stimulating or inhibiting) of government policy and institutions; and change of norms, rules and beliefs (that is institutions) can also condition and shape behavior and choice of entrepreneurs.

Actually, taking into consideration social context [14, p. 142-3] which could stimulate or prevent an entrepreneur to develop his efforts in carrying out activities (processes) necessary for achieving adequate (and expected) outcome is not only welcomed, but necessary for completing study of entrepreneurship. Although entrepreneurial activity may be logical outcome of complex interaction between individual and environmental factors, the latter shape, affect and most importantly dominate the former, this way preventing nascent entrepreneurs from becoming real ones.

Missing parts in entrepreneurial “puzzle” or what we inherited from Schumpeter

Now, let us turn back to fundamentals of entrepreneurial research to see whether some of the above-mentioned changes were predicted or (at least) indicated at the time. In order to do so in a proper way, a preliminary useful step is to be taken – to recall what Schumpeter really meant by entrepreneur and how he has described the role and actions of the entrepreneur.

In the first edition of “*Theorie*”, an entrepreneur was understood as “new and independent *agens* in the economy” [25, p. 406], insightful and energetic man of action, who used his personality to force himself on others and demonstrated both *willingness* and *capability* to create “something new and destroy the old thing” [25, p. 409].

Judging by this explanation, Schumpeter (although quite unaware of it) made a proper distinction between so-called nascent and real entrepreneurs. He did not connect meaning of the term to mere desire to try one's predisposition to act in an entrepreneurial way (which can be qualified as nascent entrepreneurship), but rather to capability to disrupt previous practice and accommodate to new circumstances (real entrepreneurship).⁵

In fact, by bringing something qualitatively new, entrepreneurs were the ones "responsible" for development and they significantly differed from those who were only ready to adapt themselves by doing things to be familiar with. According to Schumpeter, only entrepreneurs were capable of carrying out innovative reallocation of economic resources, as well as transformation of organizational forms. Contrary to managers who were occupied with usual, routine activities, entrepreneurs were initiative individuals, possessing some exceptional and rare qualities such as readiness for exercise leadership by bringing about essential changes in organization. Actually, they were understood as "sociologically distinct individuals" [20], thanks to their impressive natural abilities necessary for making different "path-breaking" changes in the economic system.

This description corresponds to the claims of propensity model of entrepreneurship: individuals are predisposed to become entrepreneurs regardless of characteristics of particular institutional system they operated in. In other words, an entrepreneur was supposed to be the leader whose decisions were much more intuitively based [26] than founded on practical training or other kinds of support from surroundings. At the same time, he (she) was not expected to be inventive and creative person, but the one among the others who was able to recognize and exploit already present possibilities.⁶

Schumpeter emphasized that the main intention of that ambitious (let me say) freelancer was to "shake things up", that is to make the change bringing something new to be realized. In spite of the fact that such innovativeness was not explicitly connected to other aspects of entrepreneurship, capability of doing the above-mentioned type of activities necessary included much more than Schumpeter might be aware of and/or

⁵ Only those capable for putting into practice already existing and noticed opportunities may belong to the latter category.

⁶ "...the new thought is taken up by a powerful personality and is implemented by his influence. This personality does not have to be the creator of the thought, just as the entrepreneur need not have invented the new production method he is introducing. What characterizes the leader - here like everywhere else - is the energy of action and not energy of thought" [25, p. 429].

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was willing to stress. Actually, the very decision to exploit the recognized opportunity reflected entrepreneur’s readiness to *bear* some *risk by taking the proper action* so that things would be *organized and carried out in the appropriate way*. And these are entrepreneurial functions which were (more or less in a similar way) mentioned and analyzed (later or sooner) by Knight, Kirzner and Say, respectively.⁷

Besides above-mentioned innovativeness, there was another essential characteristic of the entrepreneur at the time. He (or she) was not initially motivated by profit stimuli, but rather driven by other motives. Such type of behavior seemed to be idealist and in that sense quite similar to so-called romantic entrepreneurs [3, p. 137]. Being driven by motivational forces which were not by origin profit ones, these individuals seemed to be similar to Kirzner’s [12] pure entrepreneurs: “deprived” of ownership and having some prosperous ideas in their minds, they *primarily* brought about changes in goods, methods of production, markets, organizational forms and so on, whereas a reward for their efforts was somehow pushed into the background. Of course, this did not mean that Schumpeter believed an entrepreneur could live on changes instead on profits; it was just quite natural to expect that at such level of economic development (in the beginning of the twentieth century) impulses for generating something new prevailed.

Later on (during further development of capitalism), initiative and creativity of “heroic” individual have undergone dramatic changes. Entrepreneur was firstly transformed from one who “shook thing up” to another “getting things done” [24, p. 132]. And in the next phase, the exclusivity of individual entrepreneur was replaced by depersonalized innovative activities being done by large firms [24, p. 133].⁸ In other words, so-called *Man of action* was somehow swallowed up by dynamism of capitalist engine. For this reason Schumpeter was accused to abandon his entrepreneur-centered theory [30, p. 8]. And probably that is why some authors [5, p. 213-214]⁹ saw the difference between Schumpeter I (insisting on individual as the entrepreneur) and Schumpeter II (ascribing entrepreneurship to corporations).

⁷ For more detailed analysis of these functions see: [16; 17],

⁸ In that sense Becker and Knudsen tried to remind us about the differences between first and second German edition of Schumpeter’s *Theorie*; during those fifteen years the entrepreneur was converted from energetic leader causing economic changes into “a much weaker individual” [2, p. 391, 393-4]. And later (from second edition onward) “de-personification of the entrepreneurial function” [2, p. 394] came to the scene.

⁹ And George Ritzer [22] mentioned Carayannis, Ziemnowicz and Spillan in that context.