Defining Entrepreneurship: Operational Considerations

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Abstract—The phenomenon of entrepreneurship is intertwined with a complex set of overlapping constructs and perspectives. Consequently, entrepreneurship literature is cluttered with a large number of definitions that emphasise the multifaceted nature of the phenomenon. The various definitions to entrepreneurship emphasise a wide range of activities such as creation, founding, managing and adapting a venture. This paper evaluates previously constructed definitions to identify four main approaches of entrepreneurship conceptualisation. The suggested four approaches have been “evolved” through the analysis of historic development of the entrepreneurship phenomenon. Each of these approaches provides valuable insight into policy-making and educational programmes by targeting at different entrepreneurial realities.

Keywords—Entrepreneurship, psychological approach, management approach, economic approach, innovation, value creation

I. INTRODUCTION

This paper aims at evaluating previously constructed definitions based on their different approaches to entrepreneurial realities. The paper synthesises entrepreneurship definitions into four main approaches, suggesting their operational implications to understand the entrepreneurial process. The paper emphasises the issue of defining entrepreneurship and discusses the importance of agreed upon definitions for the development of entrepreneurship research field as well as operational development of entrepreneurship.

II. THE ISSUE OF DEFINING ENTREPRENEURSHIP

Reference [1] annotates that the entrepreneur has a lot in common with the “Heffalump”, a character in A.A. Milne’s Winnie-the-Pooh, described as:

“A rather large and important animal. He has been hunted by many individuals using various trapping devices, but no one so far has succeeded in capturing him. All who claim to have caught sight of him report that he is enormous, but disagree on his particulars.”

As with the metaphor of the “Heffalump”, entrepreneur has been a subject of iterative discourse mused over by many eminent scholars such as [2]-[9], yet offering a specific and unambiguous definition of the entrepreneur and entrepreneurship still presents a challenge.

Even the classic reviews on this issue, for example [10] are still pertinent today and highlighted issues still not fully resolved [7]. Diversity of the phenomenon and its multifaceted nature are reflected in many and varied definitions of the phenomenon [2].

The phenomenon of entrepreneurship is intertwined with a complex set of overlapping constructs and perspectives such as management of change, innovation, technological and environmental turbulence, new product development, small business management, individualism and industry evolution [2].

Therefore, significant numbers of definitions are available in literature having economic, social, psychological, behavioural, managerial and anthropological dimensions.

On the other hand, the term entrepreneurship has been used to define a wide range of activities such as creation, founding, adapting, and managing a venture. No single discipline provides a tool for managing an entrepreneurial venture [3]. With such a variation in viewpoints, it is not surprising that a consensus has not been reached as to what entrepreneurship is.

A. A Need for Consistency Among Definitions

Reference [11] emphasises the importance of precise, inherently consistent and agreed-upon definitions as “good science has to begin with good definitions”. A number of scholars emphasise the importance of differentiating the research field of entrepreneurship from neighbouring fields in order to generate more productive empirical research and to win legitimacy [5]-[6], [11]-[12]. As in [5], when there is no consensus on a paradigm, or at least on the main research object of the field, “researchers tend to speak after one another, rather than to one another” and knowledge cannot be accumulated. As [5] annotates, If there is no agreement on a paradigm, even a minimally defined one, the field of entrepreneurship could actually disappear.

On the other hand, the role of the entrepreneur in society is difficult to establish if the concept of entrepreneurship is inadequately defined. As in [12], it is difficult for policy makers, governments and other relevant stakeholders to provide programmes to encourage and support entrepreneurship if they do not know what an entrepreneur is or what types of firms are entrepreneurial. It has become necessary to establish theories that will generate more productive empirical research to advance knowledge and produce tools that are useful in practice. Some effort at definition is therefore needed.

However, various definitions of entrepreneurship carry different important social realities [6], and present endless possibilities and meaning to different ventures. Therefore, rather than attempting to pin down the phenomenon with
a universally accepted definition, this section attempts to reformulate the proposals already made by researchers in the field and aims at evaluating past definitions leading to a better understanding of the phenomenon through an operational approach.

III. THEORETICAL APPROACHES TO DEFINE ENTREPRENEURSHIP

In broad sense, there are two distinctly different approaches to define entrepreneurship operationally: (1) the psychological approach and (2) the behavioural approach. The first approach ask the question “who the entrepreneurs are” and then define entrepreneurship based on inductive observation of their characteristics as persons and what they do as entrepreneurs. This approach is also referred to as the “trait approach” and the aim is to establish a causal relationship between characteristics and actions of the entrepreneurs. The second approach is to define entrepreneurship and its related behaviours and thereby define entrepreneurs as those who practice entrepreneurship activity [12].

Careful reviewing of a number of definitions of entrepreneurship phenomenon (and of entrepreneur) presented by early scholars such as Richard Cantillon, J.G. Say, and Schumpeter as well as some of the recent definitions presented by Drucker, Davidsson and other contemporaneous authors reveal that these definitions seem to fall within few specific categories. Entrepreneurship theory began by focusing on activities of the entrepreneurial individual through an economic perspective. Definitions presented in subsequent studies demonstrate a transition of focus into wider areas of entrepreneurial personality, attitudes and entrepreneurial behaviour.

Early writers observed the individual either as a “great person” who has an intuitive ability, inherent traits and characteristics or as someone with unique values, attitudes and psychological needs which drive their values and attitudes. Entrepreneurship conceptualisation later evolved into aspects of productive functions of entrepreneurship maintaining that the reason for entrepreneurial activity was profit motivation. This definitional stance identifies the central characteristics of entrepreneurial behaviour are innovation, creativity and discovery of new opportunities. Some of the recent definitions have been evolved into much broader and complex aspects of entrepreneurship by focusing on organisational creation process, strategic management functions of the entrepreneur and continuation of entrepreneurial tasks within large corporations. The following section briefly explores these entrepreneurship definitions through different theoretical approaches.

A. The Economic Approach

In mainstream or neoclassical economic theory, the entrepreneur can be viewed as someone who co-ordinates different factors of production. The entrepreneur becomes merged with the capitalist employer, the owner-manager, who has the wealth to enable production to take place, but otherwise does not contain any special attributes. The main body of conventional economic theory has developed without a place for the entrepreneur. As in [13], the entrepreneur, if recognised at all, is a pure risk-taker, the reward being the ability to appropriate profits. Yet, there are handful of writers outside mainstream economic thinking who contributed to the development of views on the role and concept of the entrepreneur, emphasising that the entrepreneur has a significant role in economic development.

Cantillon and Say are among the earliest important French writers who contributed to the economic perspective of the role of the entrepreneur. Although they related the concept of entrepreneurship to an individual, both of them were interested in economic function of the entrepreneur more than in the process of value creation and entrepreneurial behaviour [4].

Cantillon identifies the entrepreneur as a self-employed risk taker and as “someone who has the foresight and willingness to assume risks to make a profit or sustain a loss, and in so doing contributes to equilibration of a market economy”[4]. Cantillon’s entrepreneurs, through self-serving interest, react to price movements (profit opportunities), and in so doing act to bring about a tentative balance between supply and demands in specific markets. Both Cantillon and Say identified the key role of the entrepreneur as an “organiser of factors of production”. Unlike Cantillon, Say identifies the positive social consequences of entrepreneurship by focusing on skills, characteristics and social interactions of entrepreneur. However, as in [4], the entrepreneurial function as a force of change in a dynamic economy was neither considered nor explored.

Innovation, creativity or discovery approach within economic theory has probably been; and remains; the most influential. Some scholars belong to the economic approach clearly distinguish entrepreneurial activity from management activity. They insist that an individual is no longer an entrepreneur once the innovative/ creative activity is completed. For the economic approach, critical aspect of entrepreneurship appears to be the process of “doing” rather than “owning” a venture or a business [3].

Indeed, according to [14], the key ingredient of entrepreneurship lies in the innovativeness of the individual and may not involve ownership at all. Schumpeter was the first economist who clearly identified the actions of an entrepreneur rather than identifying the economic effects in the system. Schumpeter suggests that the entrepreneur is an innovator, and therefore a relatively exceptional person who changes the economy in some way or another [5]. He defines entrepreneurship as “the carrying out new combinations of means of production”[14]. The entrepreneur brings about change through the introduction of new technological processes or products. “The Schumpeterian entrepreneur” does not passively operate in a given world; he creates a world different from which he finds by moving the system away from equilibrium.

Schumpeter’s definition captures several key elements that separate entrepreneurship from business management. First, he explicitly states that entrepreneurship involves innovation to pursue an inconstant opportunity. Second, Schumpeter suggests that individuals become entrepreneurs only when they act – i.e. “carry out new
combinations”-. Third, transition occurs from entrepreneurship to business management with the nature of the organisation changes by building up the business, and actions of the individual change by “settling down to running it as other people run their businesses”. Fourth, entrepreneurship may still exist internally within those established large organisations.

Discovery and/or exploitation of an opportunity are other forms of creativity. According to [15], Entrepreneur is an individual who is alert to profitable opportunities for exchange. Kirzner emphasises the entrepreneur’s key ability is to correctly anticipate where the next market imperfections and imbalances will be [6], which is termed as “creative alertness” [13]. The importance of entrepreneurial alertness for explaining economic development and predicting and discovering opportunities in the entrepreneurial process has been emphasised in the subsequent definitions.

A combination and synthesis of entrepreneurship’s varying in nature definitions in general terms agree to the positive effects that entrepreneurship poses on firms’ value creating efforts. The notion of value creation stems from a large majority of the entrepreneurial definitions. Entrepreneur is often seen as the individual responsible for the process of creating new value (an innovation and/or a new organization) [5]. Given this approach, entrepreneurship is viewed as a process of interaction between the value creator (i.e. the entrepreneur) and the new value that has been created. This system is an open system that interacts with the environment. The system can select and organise its environment to some extent. On the other hand, it can be stimulated, influenced or hindered by the interaction.

B. The Psychological Characteristics Approach

The emergence of psychological/sociological perspective in the theoretical development of the entrepreneurial concept in the early 20th century demonstrates a transition of focus from entrepreneurial activities to a search for a distinct entrepreneurial personality. The psychological approach ask the question “who the entrepreneurs are” and then define entrepreneurship based on inductive observation of their characteristics as persons and what they do as entrepreneurs. This approach is also referred to as the “trait approach” and the aim is to establish a causal relationship between characteristics and actions of the entrepreneurs [12].

Are entrepreneurs born or made? Are there inherent personality traits within individuals which produce entrepreneurial behaviour? Or Can individual traits and characteristics to be used to predict venture success and failure? A vast number of research attempt at defining entrepreneurship based on the traits approach [2], [12], [16]-[19]. Personal characteristics emphasised in past research include need for achievement, internal locus of control, tolerance for ambiguity, managing risk, desire for independence and others. Among these characteristics, risk-taking propensity and need for achievement has been repeatedly identified as significant characteristics of the entrepreneur and entrepreneurship.

However, as in [2],[8],[20]; debate about application of personal characteristics to define entrepreneurship prevails. The literature has shown that personality traits such as risk-taking propensity and need for achievement, while possessing a great deal of face validity, have generally showed disappointing results when it comes to having a significant impact on new venture performance [8],[21]. The question “who is an entrepreneur?” focuses researchers’ attention on traits and personality characteristics of entrepreneur. It limits the ability of understanding entrepreneurship as a process of organisational emergence [8].

The psychological school of entrepreneurship believes that certain individual values and needs are necessary preconditions for entrepreneurship. Since these values are learned early in life and are well-established prior to adulthood, entrepreneurial characteristics are hard to encourage in universities and schools. Accordingly [13] proclaim that ascribing too much importance in inherent set of personality characteristics reduces the role of education and training in entrepreneurship development. Furthermore, literature suggests that there is a danger of ignoring environmental and cultural influences in entrepreneurship.

C. The Management Approach

While the “what” and “why” questions of entrepreneurship may be fascinating, what is really expected to know is “how” does one become “entrepreneurial”? It is assumed that the psychological characteristics which individuals were born with or developed in early stages of life cannot be changed. Individuals can however deliberately put themselves in situations where they can learn.

The management approach suggests that an entrepreneur is “a person who organises or manages a business undertaking, assuming the risk for the sake of profit” [3]. According to the management school, entrepreneurship is a series of learned activities which focus on the central functions of managing a firm. It involves functions such as start-up planning, strategising, managing development and growth, supervision and providing direction to the firm. In simple terms, the management approach views entrepreneurship as a pattern of management behaviour. Entrepreneurial management however differs from the traditional management in some important areas.

The management approach seems to be based on the belief that entrepreneurs can be trained or developed through situational learning [3]. Since, according to this approach, entrepreneurship can be taught, a central aim is to identify the specific functions involved and provide training to existing and potential entrepreneurs. It is hoped that training in management functions help to reduce number of business failures.

D. The Intrapreneurial Approach

The patterns of entrepreneurial behaviour may or may not evolve over time, dependent the owner’s objectives, the context and the organisation growth stage. Entrepreneurial behaviour may takes place in various
organisational contexts. It can be within an independent new venture, internal new venture (representing a new activity of value creation), or within a corporate venture (new developments that take place out of the mainstream of the existing organisation) [22]. Innovation activity changes throughout the evolution of entrepreneurial management process during organisational growth. Individual entrepreneur is the locus of innovation in new ventures. However, as the organisation grows, entrepreneurial management capabilities must pass to others within the organisation in order to maintain innovation. This aspect of individuals’ entrepreneurial behaviour within large organisations is generally terms as “intrapreneurship”. Intrapreneurship involves the development of independent units designed to create, market, and expand innovative services, technologies or methods within organisations [3].

However, large organisations are always not successful in creating entrepreneurs and entrepreneurial culture. The success of intrapreneurship model seems to depend on the organisation’s overall strategy and the ability of employees to exploit entrepreneurial opportunities. It also depends on the extent to which the corporate management structure perceives the need to exploit entrepreneurial opportunities.

IV. OPERATIONAL CONSIDERATIONS

Each of the preceding approaches provides different insights to multiple facets of entrepreneurship. These definitions and perspective of each approach have their own assumptions for research, policy development, training and education. Table I summarises definitions of each entrepreneurial approach through an operational perspective. It leads to the types of research, policy and training emphasised in each approach.

Entrepreneurship is not just an action, but it is a re-iterative process which involves identifying opportunity, forming ideas, venture formation, acting and managing the venture, reassessing the needs for change as the organisation grows and evaluating in order to determine further directions. The different approaches discussed in this paper seem to address specific needs of each phase in entrepreneurial development process.

The economic approach emphasises the criteria such as innovation, decision making and opportunity recognition, which focuses on venture formation. This approach discusses the process of identifying opportunity and taking actions. The research and education suggest by this approach address issues such as opportunity recognition and decision making ability and techniques to stimulate creative thinking ability.

In a macro-level, the innovative orientation of a society will be largely determined by how entrepreneurship has been perceived by policy and development agenda. Opportunities are either created or identified in the environment with a certain degree of uncertainty.

<table>
<thead>
<tr>
<th>Approach</th>
<th>Key Authors</th>
<th>Definition</th>
<th>Measures</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Psychological</td>
<td>[16]</td>
<td>Unique individual characteristics: Controls the means of production</td>
<td>Personality traits – Need for achievement,</td>
<td>What are your values and motivations?</td>
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<td></td>
<td></td>
<td></td>
<td>Locus of control, Tolerance for ambiguity</td>
<td>What are your personal principles?</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Personal values and principles</td>
<td>How do you see yourself?</td>
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<td></td>
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<td>What are your achievements?</td>
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<td></td>
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<td>Success and failure experiences?</td>
</tr>
<tr>
<td>Economic</td>
<td>Knight, Shackle</td>
<td>People who bear risk and uncertainty, People who innovate and create</td>
<td>Creativity</td>
<td>How would you perceive risks?</td>
</tr>
<tr>
<td></td>
<td>as in [13],[14],</td>
<td>People who create new value</td>
<td>Opportunity recognition</td>
<td>The most difficult decisions?</td>
</tr>
<tr>
<td></td>
<td>[17]</td>
<td>People who discover and/or exploit opportunity</td>
<td>Decision making</td>
<td>How did you respond?</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Risk taking</td>
<td>How do you perceive opportunity?</td>
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<tr>
<td>Management</td>
<td>Webster, Peterson,</td>
<td>A person who takes risks, supervise, control, and provide direction to the</td>
<td>Business planning Expertise</td>
<td>How do you manage start-up planning/risks/</td>
</tr>
<tr>
<td></td>
<td>Bird [3]</td>
<td>firm. Management of risks Promotion and protection of values</td>
<td>Technical knowledge and skills</td>
<td>people etc?</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td>What are your capabilities?</td>
</tr>
<tr>
<td>Intrapreneurship</td>
<td>Stevenson, Jarillo</td>
<td>People who work together to promote innovation within an organisation</td>
<td>Decision making</td>
<td>How do you change and adapt?</td>
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<td></td>
<td>[22]</td>
<td></td>
<td>Team work</td>
<td>The management approach?</td>
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<td></td>
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<td></td>
<td>Overall strategy</td>
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The value creation process is often seen as an interactive dialogic between the individual and the creation, influenced by the environment. Therefore, this approach also considers environmental factors that influence entrepreneurial process.

The psychological approach suggests that certain values and behaviours such as risk-taking, need for achievement and internal locus of control are important inherent qualities of a successful entrepreneur. Therefore,
this approach suggests a more targeted and individualised approach towards training and education by emphasising the need of addressing individuals with desired psychology. Research in this vein focuses on the entrepreneurial individuals and their characteristics that relate to the venture success. While the psychological characteristics are largely inherited, the influence of early-life experience (and hence environment) are not fully ignored. The psychological approach might be helpful in a personal assessment of an individual’s values to question which values are most desired for success. While this approach has been criticised by some authors, it still provides great insight into one’s own attitudes, values and behaviours towards work. Potential entrepreneurs might be able to self-assess their values, attitudes and behaviours based on similar characteristics of other successful entrepreneurs in the venture formation process.

The management approach is perhaps the most intuitively exciting one for individuals as this approach suggests that entrepreneurial skills and behaviours can be enhanced by training and education. The management approach is helpful to understanding the range of technical and interpersonal skills necessary for venture success. Hence, this approach is more pertinent in conceptualising venture growth, once the venture is established. Nevertheless, training and skill development in planning activities would facilitate successful start-up process as well.

The intrapreneurship approach encourages innovative behaviour in large organisations. Breaking away from routine activities require creativity, autonomy and shift in corporate management strategies, which may lead to resurgence of innovation and enhanced value creation. This approach emphasises the development of teams for creative problem solving. Organisational and strategic innovation behaviour and strategic entrepreneurship issues are relevant research approaches in this perspective.

V. CONCLUSION

While the entrepreneurship literature is “congested” with an overwhelmingly large number of definitions, this articles suggests that these definitions seem to be rooted in few basic assumptions. This paper presents four such approaches: the economic approach, the psychological approach, the management approach and the intrapreneurial approach. However, authors have sought to avoid pinning down the entrepreneurship phenomenon with a universally-accepted definition. Neither have they tried to evaluate superiority of one approach over the other. The selection of one approach over another depends on what aspect or aspects of the entrepreneurial process that the researcher or policy maker expected to emphasise.

As discussed earlier, psychological approach might be useful to emphasise the influence of individual’s values, attitudes and behaviours over the entrepreneurship development process. The economic approach provides background for researchers and policy makers who expect to identify the role of innovation, creativity and opportunity recognition as well as the process of creating value. The management approach is helpful in understanding competencies and skills necessary for entrepreneurship as well as in providing means of enhancing these competencies. Finally, the intrapreneurship approach might be helpful in evaluating an organisation’s vision, directions and future strategies as well as in re-directing the organisation.

However, any of these approaches considered in isolation might not provide a holistic view of entrepreneurship. Entrepreneurship is a multi-dimensional phenomenon which involves the individual, the organisation and the environment in an interactive dialogic process. Therefore, understanding of entrepreneurship and its multi-dimensional nature requires a holistic approach which focuses on individual entrepreneur’s attitudes, behaviours, characteristics, skills; the process of identifying opportunity to create new value (i.e. an innovation and/or new organisation; the characteristics of the organisation and its development process; and the entrepreneur’s activities in managing and adapting the organisation within environmental influences.

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