

Concepts of entrepreneurs

The creation of a country's wealth and dynamism depends upon the competitiveness of its firms and this, in turn, relies fundamentally on the capabilities of its entrepreneurs and managers.

The essence of the modern firm lies in the specialization of functions. "The businessmen" that manage economic activity are, in the strictest sense, both managers and entrepreneurs, the latter in a double sense: the individual businessman (independent) and the "corporate entrepreneur" who, without participating significantly in terms of capital, controls the firm.

Studying offers of business capabilities requires the differentiation between the functions of entrepreneur, manager and capitalist, although in many cases, the same person may perform all three (table 1).

The individual entrepreneur detects or creates business opportunities that he or she then exploits through small and medium-sized firms, normally participating in funding the capital for that firm, carries out the role of arbitrator or simply "sells the idea" of the business project. The "corporate entrepreneur" or the chief executive of large firms must also be considered. This figure is no longer limited to efficiently managing the firm's assets and coordinating and controlling its activities; in the current climate, he or she must anticipate, articulate and manage change. In other words, they must reinvent the firm on a daily basis, creating new enterprise (*spin-offs*) and develop company networks. When discussing the figure of the corporate businessman, one must also consider the key shareholders that take an active part in the firm, along with managers that share in making up the firm's basic competences.

Table 1. Entrepreneurs, managers and capitalists

	ENTREPRENEUR	CAPITALIST	MANAGER
CHARACTERIZED BY	<p>Discovers and exploits opportunities</p> <p>A creator who initiates and motivates the process of change</p>	<p>Capital owner: shareholders</p> <p>Controlling shareholder</p> <p>Passive shareholder</p>	<p>Administrate and manages resources</p> <p>An administrator</p>
BEHAVIOUR	<p>Accepts risks</p> <p>Uses intuition, is alert, explores new business</p> <p>Leadership, initiates new ways of acting</p> <p>Identifies business opportunities</p> <p>Creation of new Enterprise</p>	<p>Aversion to risk-taking</p> <p>Assesses alternatives</p> <p>Choice of venture assets</p>	<p>Aversion to risk-taking</p> <p>"Rational" decision-maker. Explores business</p> <p>Creates and maintains competitive advantage</p> <p>Creates trust to enhance cooperation</p> <p>Supervision of the administrative process</p>

However, the manager's function is first and foremost to supervise the process of combining resources, and efficiently manage the firm's business portfolio. They have a key function when, as is normally the case, firms do not operate efficiently and instead are a long way short of their production boundaries. A second but fundamental task of the manager is to build up a reputation and an atmosphere of trust that transforms a conflictive system (individuals with conflicting objectives) into a system of cooperation. Managers should create a climate of trust so that employees will not tend towards opportunist behaviour, even when it suits their short-term interests, as well as achieving a greater degree of efficiency by reducing supervision and agency costs.

Finally, the capitalist is the provider of the firm's funds, either in the form of a passive shareholder (in the case of small shareholders or institutional investors) or as a majority shareholder or active shareholder who, in many small and medium-sized firms, assumes both the entrepreneurial and managerial functions.

About entrepreneurship

The entrepreneurial function implies the discovery, assessment and exploitation of opportunities, in other words, new products, services or production processes; new strategies and organizational forms and new markets for products and inputs that did not previously exist (Shane and Venkataraman, 2000). The entrepreneurial opportunity is an unexpected and as yet unvalued economic opportunity.

Entrepreneurial opportunities exist because different agents have differing ideas on the relative value of resources or when resources are turned from inputs into outputs. The theory of the entrepreneur focuses on the heterogeneity of beliefs about the value of resources (Alvarez and Busenitz, 2001: 756).

Entrepreneurship –the entrepreneurial function- can be conceptualized as the discovery of opportunities and the subsequent creation of new economic activity, often via the creation of a new organization (Reynolds, 2005).

Due to the fact that there is no market for “opportunities”, the entrepreneur must exploit them, meaning that he or she must develop his or her capabilities to obtain resources, as well as organize and exploit opportunities. The downside to the market of “ideas” or “opportunities” lies in the difficulty involved in protecting ownership rights of ideas that are not associated with patents or copyrights of the different expectations held by entrepreneurs and investors on the economic value of ideas and business opportunities, and of the entrepreneur's need to withhold information that may affect the value of the project.

Entrepreneurship is often discussed under the title of the entrepreneurial factor, the entrepreneurial function, entrepreneurial initiative, and entrepreneurial behaviour and is even referred to as the entrepreneurial “spirit. The entrepreneurial factor is understood to be a new factor in production that is different to the classic ideas of earth, work and capital, which must be explained via remuneration through income for the entrepreneur along with the shortage of people with entrepreneurial capabilities. Its consideration as an entrepreneurial function refers to the discovery and exploitation of opportunities or to the creation of enterprise. Entrepreneurial behaviour is seen as behaviour that manages to combine innovation, risk-taking and proactiveness (Miller, 1983). In other words, it combines the classic theories of Schumpeter’s innovative entrepreneur (1934, 1942), the risk-taking entrepreneur that occupies a position of uncertainty as proposed by Knight (1921), and the entrepreneur with initiative and imagination who creates new opportunities. Reference to entrepreneurial initiative underlines the reasons for correctly anticipating market imperfections or the capacity to innovate in order to create a “new combination”. Entrepreneurial initiative covers the concepts of creation, risk-taking, renewal or innovation inside or outside an existing organization. Lastly, the entrepreneurial spirit emphasizes exploration, search and innovation, as opposed to the exploitation of business opportunities pertaining to managers.

All this explains why entrepreneurship is described in different ways. The business process includes the identification and assessment of opportunities, the decision to exploit them oneself or sell them, efforts to obtain resources and the development of the strategy and organization of the new business project (Eckhardt and Shane, 2003). Entrepreneurship is “a process by which individuals –either on their own or within organizations– pursue opportunities” (Stevenson and Jarillo, 1990: 23). It has recently been claimed that if the managers and businessmen of many of our firms were to adopt entrepreneurial behaviour when developing their strategies, firms would be facing a much brighter future than current perceptions suggest (Lee and Peterson, 2000).

The entrepreneur’s central activity is that of business creation, which can be studied at an individual and/or group level –analyzing psychological aspects and social variables of education, background or the family- either at an environmental level using variables that enable business development, or by analyzing aspects of the economic, social and cultural environments.

The study of entrepreneurs as individuals analyzes the variables that explain their appearance, such as personal characteristics, the psychological profile (the need for achievement, the capacity to control, tolerance of ambiguity and a tendency to take risks) or non-psychological variables (education, experience, networks, the family, etc.).

Equally, socio-cultural and institutional focuses underline the role of exclusion and social change as motivators of the entrepreneurial function in minority or marginalized groups. Studies on environmental variables emphasize culture or shared values in society, institutions linked to the legal framework, variables of the economic environment (demand) and the financial one (venture capital and cost), along with the spatial environment (clusters and economies of agglomeration).

Therefore, there are three basic ideas that explain the appearance of entrepreneurial activity. The first focuses on the individual, in other words, entrepreneurial action is conceived as a human attribute, such as the willingness to face uncertainty (Kihlstrom and Laffont, 1979), accepting risks, the need for achievement (McClelland, 1961), which differentiate entrepreneurs from the rest of society. The second fundamental idea emphasizes economic, environmental factors that motivate and enable entrepreneurial activity, such as the dimension of markets, the dynamic of technological changes (Tushman and Anderson, 1986), the structure of the market –normative and demographic- (Acs and Audretsch, 1990) or merely the industrial dynamic. The third factor is linked to the functioning of institutions, culture and societal values. These approaches are not exclusive (Eckhardt and Shane, 2003: 2), given that entrepreneurial activity is also a human activity and does not spontaneously occur solely due to the economic environment or technological, normative or demographic changes.

When referring to entrepreneurs, there is normally a differentiation between individual entrepreneurs or businessmen (independent) and corporate entrepreneurs or businessmen associated with the higher echelons of a firm's management. Different names have been used to describe the latter such as "corporate Entrepreneurship", "corporate venturing", "intrapreneurship", "internal corporate entrepreneurship" and "strategic renewal".

Entrepreneurial management can be considered as being different to traditional ways of managing organizations. Many managers are looking to new ways of making their organizations more entrepreneurial in many aspects, from a general strategic orientation to reward schemes (Brown, Davidsson and Wiklund, 2001). Barringer and Bluedorn (1999) emphasized a positive relationship between the intensity of corporate entrepreneurship and the intensity of the search for opportunities, strategic adaptation and value creation. As pointed out by Hitt *et al.* (2001: 488) "firms need to be simultaneously entrepreneurial and strategic".

Entrepreneurship is an essential element for economic progress as it manifests its fundamental importance in different ways: a) by identifying, assessing and exploiting business opportunities; b) by creating new firms and/or renewing existing

ones by making them more dynamic; and c) by driving the economy forward – through innovation, competence, job creation- and by generally improving the wellbeing of society.

Entrepreneurship affects all organizations regardless of size, or age, whether they are considered a private or public body, and independently of their objectives. Its importance for the economy is reflected in its visible growth as a subject of interest for the economic press and in academic literature. For this reason, it is a matter of interest to academics, businessmen and governments the world over.

The study of entrepreneurship leads us to attempt to answer a series of questions such as: *What* happens when entrepreneurs act? *Why* do they act? and *How* do they act? (Stevenson and Jarillo, 1990). Why, when and how do opportunities for the creation of goods and services come into existence? Why, when and how do some people and not others discover and exploit these opportunities? And finally, why, when and how are different modes of action used to exploit entrepreneurial opportunities? (Shane and Venkataraman, 2000).

We have limited knowledge of the opinion of entrepreneurs, business opportunities, the people that pursue them, the skills used for organizing and exploiting opportunities and the most favourable environmental conditions for these activities. Moreover, studies are carried out at different levels; individual, firm, sector and geographical space. There is no basic theory for carrying out this type of study, resulting in approximations based on casuistry, anecdotes or fragmented reasoning (Eckhardt and Shane, 2003: 12). The black box of entrepreneurial function is yet to be opened (Fiet, 2001).

The problems involved in a study of “entrepreneurship” are linked to the need to delimit the field of study and rely on a conceptual structure that enables the explanation and prediction of empirical phenomena that are not explained by other fields of knowledge; it is necessary to generate a paradigm, to develop a set of testable hypotheses, to overcome the existing casuistry and description and look further into longitudinal and cross-sectional analysis.

Despite all this, a considerable body of literature has accumulated on the subject of entrepreneurship to the point where, just as has happened in other fields, a sizeable number of entrepreneurship-related studies have been published in journals in the areas of administration and management, while other journals that specifically specialize in topics related entrepreneurship have appeared. The role of the entrepreneur has been analyzed in special issues in journals such: *Strategic Management Journal* and *Journal of Management* (Audretsch *et al.*, 2005), *Academy of Management Journal* and *Journal of International Marketing* (Coviello and Jones, 2004). Almost a hundred journals can be adjudged to have published work related to entrepreneurship (*Entrepreneurship Division* of the Academy of Management, in research carried out in the summer of 2006).

Learn about the Concept of Entrepreneurship

Definitions by Renowned Authors

An entrepreneur is a person who is devoted to search something new and exploit the novel notions and visions into gainful opportunities by bearing the risk involved in the process. The entrepreneur conceives the idea of an enterprise, lives with it, and finally establishes the enterprise. Entrepreneurship refers to the process of activities undertaken by an entrepreneur.

Jeffrey. A. Timmons in 'New Venture Creation, entrepreneurship for the 21st century' opines "Entrepreneurship is a way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach, and leadership balanced for the purpose of value creation and capture."

He further adds that, "Entrepreneurship results in the creation, enhancement, realization, and renewal of value, not just for owners, but for all participants and stakeholders. At the heart of the process is the creation and/or recognition of opportunities, followed by the will and initiative to seize these opportunities. It requires a willingness to take risks both personal and financial-but in a very calculated fashion in order to constantly shift the odds of success, balancing the risk with the potential reward."

According to Arthur Cole, "Entrepreneurship may be defined in simplest terms as the utilization by one productive factor of the other productive factors for the creation of economic goods."

Entrepreneurship -the entrepreneurial function- can be conceptualized as the discovery of opportunities and the subsequent creation of new economic activity, often via the creation of a new organization.

Entrepreneurship is therefore a process which incorporates the activities like visualizing, risk bearing, organizing and establishing a business enterprise. By essence the concept of entrepreneurship is dynamic. It is totally engrossed with something new, innovative and novel. Entrepreneurship as a dynamic process gets manifested through the endeavours of the entrepreneurs to bring about new combinations, new products, new production processes, and establishing of new enterprises.

Entrepreneurship is a vital constituent that influences the economic growth of a country and also influences the global competitiveness of the country.

The process of entrepreneurship involves identification, evaluation and implementation of new business prospects. The process also involves establishment of new business firms and enterprises. The innovation also forms an integral part of the process. The process results in employment generation and improves the living standard of the people and influence the growth and development of the economy.

According to A. H. Cole, "Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandize profit by production or distribution of economic goods and services".

"The essence of entrepreneurship lies in the perception and exploitation of new opportunities in the realm of business ... it always has to do with bringing about a different use of national

resources in that they are withdrawn from their traditional employ and subjected to new combinations.”

The Global Entrepreneurship Monitor (GEM) is the world’s one of the foremost study of entrepreneurship. GEM defines entrepreneurship as – “Any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business”.

The concepts of enterprise/entrepreneur and entrepreneur- ship have evolved through various stages each of which emphasises a different aspect of entrepreneurial function. The first systematic application of the term ‘entrepreneur’ to business activities was made by J.B. Say around 1800. While explaining this concept Say’s focus was on the entrepreneurial functions of coordination, organisation and supervision.

The next phase in the evolution of the concept of entrepreneur is marked by emphasis on innovation. Joseph A. Schumpeter, an Australian economist, focused on innovation and defined entrepreneur thus: “The entrepreneur in an advanced country is an individual who introduces something new in the economy— a method of production not yet tested by experience in the branch of manufacture concerned, a product with which consumers are not yet familiar, a new source of raw material or new markets and the life.”

Briefly, an enterprise/entrepreneur is one who innovates, establishes an organisation and sets the organisation going with his distinctive ability. Schumpeter’s entrepreneurship is, however, more appropriate in the context of a developed economy. In a developing economy, Schumpeter’s innovations may not come true due to lack of proper infrastructure and inadequate capital.

Further, in such economies even if one imitates technique of production from a developed economy, he would be called an entrepreneur.

Peter F. Drucker too played with the word ‘innovation’ and said- The entrepreneur always searches for change, responds to it, and exploits it as an opportunity. Further elaborating his viewpoint, Drucker observed, Entrepreneurs innovate. Innovation is the specific instrument of entrepreneurship.

Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation.

According to Drucker, the following are the sources of systematic innovation:

Sources which lie within the enterprise:

1. The unexpected—the unexpected success, the unexpected failure, the unexpected outside event.
2. The incongruity—between reality as it actually is and reality as it is assumed to be or as it ‘ought to be’.

3. Innovation based on process need.
4. Changes in industry structure or market structures that catch everyone unawares.

Sources which lie outside the enterprise:

1. Demographic—population changes.
2. Changes in perception, mood and meaning.
3. New knowledge, both scientific and non-scientific.

Another thinker who has emphasised innovation as a basic element of entrepreneurship is E.E. Hagen. According to Hagen, “An entrepreneur is an economic man who tries to maximise his profits by innovation. Innovations involve problem-solving and the entrepreneur gets satisfaction from using his capabilities in attacking problems.”

The modern concept of entrepreneurship is much wider and does not confine to any single aspect like risk-bearing, promotion, decision-making or innovation. Thus B. Higgins defines entrepreneurship as “the function of seeking investment and production opportunity, organising an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials, finding site, introducing a new technique or commodity, discovering new sources of raw materials and selecting top managers for day-to-day operations of the enterprise.”

In conclusion, it may be said that today’s concept of entrepreneurship is all-inclusive in nature. It refers to the entrepreneurial functions of creating something new, organising and coordinating business activities, risk-bearing and handling economic uncertainty.

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