The Evolution of Entrepreneurship Theory

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INTRODUCTION

This chapter will present and explain the development of entrepreneurship theory over time. Although the subject of entrepreneurship is often considered to be relatively new the historical roots can be linked back to the early economic thinkers of the 18th Century (Bygrave, 1989). The chapter will start by explaining these economic roots, exploring some of the early thinking and the different ways in which entrepreneurship was considered to be important. It will then begin to introduce theory from the middle of the 20th Century that moved away from the function of entrepreneurship in the economy to consider more psychological, sociological and behavioural issues. Finally, the chapter will explore contemporary theories and thinking and in this part the chapter will map out the different forms theory has taken (a timeline is presented in Figure 1).
As readers progress through this chapter it is worth noting the different ways in which entrepreneurship is defined. The common contemporary view is that entrepreneurship is synonymous with ‘venture creation’ or ‘fast growing companies’. In historical thinking, however, the way in which entrepreneurship has been defined has varied between different theories and thinkers. These different definitions and views will be presented throughout the chapter and the underpinning logic between these differences will be highlighted.

LEARNING OBJECTIVES

There are three learning objectives for this chapter:

1. To understand the historical nature of the subject of entrepreneurship
2. To appreciate the broad sweep of entrepreneurship thought when relating one theory to another
3. To gain awareness of the differences in entrepreneurship thought and how this impacts on how entrepreneurs are defined and understood

KEY CONCEPTS

Entrepreneurship Theory History of Thought Economic Theory

ECONOMIC PERSPECTIVES

Economic perspectives contribute significantly to the field of entrepreneurship. In most cases when economists seek to understand ‘entrepreneurship’ they are usually interested in the function that entrepreneurship plays in the economic system. The economic perspectives can be classified in several ways, either chronologically (Hébert and Link, 1988; Binks and Vale, 1990), in schools of thought (Chell, Haworth and Brearley, 1991) or by the function the economist has given to the entrepreneur within the economic system (Barreto, 1989). This chapter will present the different economic thinkers in ‘schools of thought’. There are several different schools of thought usually highlighted, these include: the French Classical School; the British Classical School; the Micro-economics and the Neo-classical School; the Austrian and Neo-Austrian School and the Schumpeterian School.

**The French Classical School**

Most readers will notice that the word entrepreneur has a French origin. Hoselitz (1960) suggests that it originated during the Middle Ages when the term entrepreneur was applied to "..the man in charge of the great architectural works: castles and fortifications, public buildings, abbeys and cathedrals" (Hoselitz, 1960, p. 237). Remains of this interpretation can be found inscribed on the older public buildings in France. Given the origins of the word it should not be surprising that the early thinkers were French economists. In most entrepreneurship texts Cantillon is recognized as the first to use the term ‘entrepreneurship’ in an economic context (Hébert and Link, 1988; Binks and Vale, 1990). His *Essai Sur la Nature du Commerce en Général* was published in 1732. Cantillon introduced an economic system based on classes of actors and entrepreneurs are one of the three classes. There are ‘landowners’ who are financially independent aristocracy. ‘Hirelings’ and ‘entrepreneurs’ were viewed to be financially dependent on others. Hirelings earned fixed incomes while entrepreneurs were "...set up with a capital to conduct their
enterprise, or are undertakers of their own labour without capital, and they may be regarded as living off uncertainty” (Cantillon, 1931, p. 55). For Cantillon individuals who purchased a good at a certain price, used that good to produce a product and then sold that product at an uncertain price could be considered ‘entrepreneurs’. Risk and uncertainty play central parts in his theory of the economic system. Successful entrepreneurs were those individuals who made better judgments about changes in the market and who coped with risk and uncertainty better than their counterparts.

Other French economists following Cantillon took up, considered and reconsidered to role of the entrepreneur in economic systems. Quesnay, for example, took a step away from Cantillon’s ideas about uncertainty and risk by offering up the first mathematical general equilibrium system in the Tableau Économique. Turgot made an additional distinction to Cantillon’s ideas by identifying that the ownership of capital and the act of entrepreneurship could be two separate functions of entrepreneurial endeavour. Finally Say, who became the first Professor of Economics in Europe (Binks and Vale, 1990), further enhanced and built on Cantillon’s ideas in two books published in the 1800s: ‘A Catechism of Political Economy (1821)’ and ‘A Treatise on Political Economy (1802)’. Jean-Baptiste Say was both a professor and a business person founding a cotton spinning mill in Pas de Calais. Perhaps because of his business experience Say made the entrepreneur the pivot on which his views about the economic system turned (see Figure 2).
Say’s theory of production and distribution was constructed on three major agents of production: human industry; capital in which he included both physical capital in the form of machines and money capital; and land, in which he included other natural resources. Say recognized that both land and capital were indispensible to production; he however, placed the ‘key’ to production with human industry (Barreto, 1989). Say then proceeded to make a tri-partite division of human industry into; "...effort, knowledge and the applications of the entrepreneur" (Koolman, 1971, p. 271). The entrepreneur was viewed by Say as the coordinator of the system, acting as an intermediary between all of the other agents of production and taking on the uncertainty and risk. The profit the entrepreneur gained was the reward for the risk undertaken. Successful entrepreneurship needed significant qualities. The most important was judgment or the ability to assess the needs of the market and understand how these needs could be met.
The British Classical School

Unlike the French Classical School the British Classical School did not start with a strong appreciation of entrepreneurship (Ricketts, 1987; Chell et al., 1991). The British School is usually considered to include early Scottish, English and Welsh political economists: for example; Adam Smith’s ‘The Wealth of Nations’; and, John Stuart Mill’s ‘Principles of Political Economy’. Although several of the key authors in this school of thought are likely to have been familiar with the term ‘entrepreneur’, particularly Ricardo who corresponded with Say, they never used it in their writing or introduced an equivalent Anglo-Saxon version. A number of reasons have been put forward for this. First, Say suggested that there was no direct parallel for the French word ‘entrepreneur’ in English, although the word ‘undertaker’ was used it did not have exactly the same meaning. Secondly, the law between England and France at the time was different. In France there was a clear distinction between the ownership of capital or land and the ownership of property and business. Whereas in England a capitalist was not only a creditor receiving interest on their capital, but an active partner, sharing in the gains and losses of a business (Tuttle, 1927). Thirdly, it has been suggested that the two groups of theorists used different conceptual apparatus. French political economy was more interested in micro-economic connections and British political economy was more interested in macro-economic (Koolman, 1971). Whatever the reason the failure of British economic thought to consider the role of the entrepreneur in the economy was unfortunate and may ultimately have led to the neglect of the subject in modern day economics (Barreto, 1989).
Microeconomics and the Neo-classical School of Thought

The school of thought includes many economists who use neo-classical approaches to explain how the production and consumption system operates. Notable theorists include: Leon Walras; Alfred Marshall; John Bates Clark; Maurice Dobb and Charles Tuttle (Barreto, 1989). Like the British Classical School, this group of economic thinkers has been criticized more for their neglect of the entrepreneurial function than their contributions to understanding entrepreneurship (Kirzner, 1980). This neglect though is important to understand as it also helps to explain why entrepreneurship as a subject grew out of and effectively left the economics discipline. A detailed rationale and explanation is provided in Barreto’s (1989) book ‘The Entrepreneur in Micro-economic Theory: Disappearance and Explanation’. In this, he concludes that there were several reasons for the decline of the entrepreneur in mainstream economic thought.

- First, he observed that the decline of the entrepreneurial concept coincided with the rise of the theory of the firm.

- Secondly, he suggested that the theory of the firm contained three fundamental assumptions (the production function, rationale choice and perfect information) that prevented the introduction of the entrepreneurial concept.

- Finally, he concluded that the desire for consistency in the theoretical structure of the theory of the firm rested on a ‘mechanistic’ philosophy of the social world which was an anathema to the concept of ‘human action’ implied in entrepreneurial activity.
Austrian and Neo-Austrian School of Thought

While mainstream economics began to develop theories, which tended to exclude entrepreneurship, other economists began to revive the concept. There have been several strands of thought which have been categorized under the Austrian or Neo-Austrian School\textsuperscript{v}. These theorists regard uncertainty and risk as important features of economic systems that allow entrepreneurs the opportunity to make profit. In this respect they build from the early French political economists. Much of the Austrian School can be traced back to the work of Mangoldt (1855). The first work that makes substantive contributions to understanding entrepreneurship is Knight’s (1921) *Risk, Uncertainty and Profit*. Rather than try to develop economic theory that portrays an ideal state of affairs Knight tried to explain the real market system as it actually operates (Ricketts, 1987) and this sets him apart from the Neo-classical School of the time. Knight argued against much of mainstream economics and explained that supply and demand cannot be in equilibrium because in reality other forces change the conditions of the market. In this situation of ‘disequilibrium’, Knight points out, that a market must be in a constant state of uncertainty and entrepreneurship becomes the skilful interpretation of market changes and the bearing of responsibility for the successful or otherwise interpretation of market change. In this theory Knight makes some important distinctions between ‘risk’ and ‘uncertainty’ that go beyond some of the earlier thinkers. If, on the one hand, change is calculable and predictable then it is a ‘risk’ and a person can predict with a certain degree of probability that it will occur. It can then be insured against or incorporated into the costs of doing business. If, on the other hand, change cannot be predicted then it is unknown and, therefore, uncertain. He argues that entrepreneurship rather than being a function, a role or a class of people, as in earlier theories, is in fact a type of decision that requires action in the face of unknown future events.
The other Austrian and Neo-Austrian economists (Mangoldt, 1855; Mises, 1949; Menger, 1950; Kirzner, 1973; Hayek, 1990) take a similar stance. Uncertainty, in their approaches, remains important as does disequilibrium and they do focus more on the entrepreneurial opportunities created from uncertainties in the market. Most widely cited of these economists is Kirzner (1973; 1980; 1982; 1990) whose ‘entrepreneurs’, or more precisely ‘entrepreneurial decisions’, are considered to be the driving force behind the market. He goes a step further than Knight by arguing that there is a crucial element in all human action that can be described as ‘entrepreneurial’, that individuals in the market do not always make logical decisions and these are often based on irrationality or subjective preferences. Again the personal judgement of entrepreneurs is important, as is uncertainty and risk, but it is not only guided by logical choices and decisions but also by the individual’s propensity to be alert to opportunities. It is this alertness to opportunity that defines the ‘entrepreneurial’ element of decision-making and, in many ways this view, brings economic thinking into the realm of recognizing the role of personal characteristics and particularly cognition. ‘Entrepreneurship’ is not only the propensity to pursue goals efficiently, when the ends and means of those goals have been identified but also the drive and alertness required to identify which goals to pursue in the first place. It is the acquisition of market information and knowledge, from market participation that helps provide this alertness to opportunity. But it is also individual capacity to ‘envisage’ future opportunities that makes ‘correct’ perception of the market possible. ‘Entrepreneurial’ ability is dependent on perceiving future market conditions and setting about a course of action that results in a sequence of decisions directed at achieving the outcome anticipated. In his early work, which he later modifies, Kirzner defines this ‘pure entrepreneur’ as a "decision-maker whose entire role arises out of his alertness to hitherto unnoticed opportunities." (Kirzner 1979, p. 38, his emphasis). The entrepreneur is, therefore, a decision-maker who begins without any means other than an ability to predict ‘successfully’ changes in market conditions.
Another recent contribution that holds a similar stance is the work of Casson (1982) who focuses on such information asymmetries and explores the role that information, information exchange and information markets have on an entrepreneur’s alertness to opportunity.

**Schumpeterian School of Thought**

While much economic thought had focused on the role of the entrepreneur in economic systems before the 1920s many contemporary researchers trace the origins of modern thought in entrepreneurship back to Joseph Schumpeter’s work (1934; 1963). Schumpeter’s theories of the economic system and the role of entrepreneurship within it have been widely discussed (MacDonald, 1971; Shionoya, 1992; 1997). His principle contribution can be found in his book ‘The Theory of Economic Development’ and an article ‘The Fundamental Phenomenon of Economic Development’. Schumpeter introduced a concept of entrepreneurship which is quite different from the others discussed so far. His theory is focused on economic development and the role of the entrepreneur in the development process. Schumpeter argues, somewhat contrary to the established thought of the time, that the important question in capitalism is not how it supports existing structures and markets but how it creates and destroys them. In contemporary thought ‘creative destruction’ is now seen as one of the crucial functions of entrepreneurial activity within an economy. The function of the entrepreneur in this new theory was the person who innovates or makes ‘new combinations’ of production possible. The concept of ‘new combinations’ covered five potential cases:

- The introduction of a new good or a new quality of a good;
- The introduction of a new method of production;
- The opening of a new market;
• The development of a new source of supply or raw-materials or half manufactured goods;

• The carrying out of a new organization of any industry (Kilby, 1971).

In Schumpeter’s theory the new combinations he presents can happen in existing businesses but by their very nature they typically occur in new firms that begin producing beside older firms. He explains his definition of the concepts by arguing; "These concepts are at once broader and narrower than usual. Broader, because in the first place we call entrepreneurs not only those ‘independent’ businessmen... but all who actually fulfil the function... even if they are... ‘dependent’ employees of a company, like managers, members of boards of directors... On the other hand, our concept is narrower than the traditional one in that it does not include all heads of firms or managers or industrialists who merely operate an established business, but only those who actually perform that function” (Schumpeter, in Kilby, 1971, p. 54). The concept, therefore, includes new businesses that are innovative or forming new combinations of resources (e.g. Facebook) and existing businesses that are doing new innovative things (e.g. Apple). Individuals and businesses are only being ‘entrepreneurial’ though when they carryout the new combinations described. They revert back to normal economic activity once their innovative role has been completed. Schumpeter concludes his theory by pointing out that individuals who are entrepreneurial may need special characteristics and skills. On the one hand, a person who works in a relatively static and unchanging situation can become accustomed to his/her own abilities and experience. On the other hand, somebody working in a dynamic and ever changing situation must cope with uncertainties in their environment and must seek to shape these uncertainties. He concludes that these are very different things: “Carrying out a new plan and acting according to a customary one are things as different as making a road and walking along it” (Schumpeter, in Kilby, 1971, p. 55). Schumpeter closes by
pointing out that this aspect raises important implications for individual psychology, cognition and behaviour. If there are individual differences in people’s ability to cope with ambiguity, uncertainty, change and risk what drives these differences? Understanding what drives the differences could help explain why some people are more entrepreneurial than others.

**EARLY PSYCHOLOGICAL AND SOCIOLOGICAL PERSPECTIVES**

With quite different theories both Schumpeter and Kirzner end by pointing out the potential individual differences that might occur in entrepreneurial capability. Schumpeter does not specify these characteristics while Kirzner focuses on cognitive skills. Both, however, identify a need for theories to explore the individual aspects of entrepreneurial activity. Schumpeter also takes his argument a step further by suggesting that the best way to understand entrepreneurial activity and behaviour is to place it in its context. In so arguing he highlights the role of historical analysis and provides the basis for taking an historical approach to understanding entrepreneurship; a rationale that many business historians have applied subsequently when studying the subject (Rose, 2000). As a consequence, from the beginning of the 1960s, entrepreneurship theorizing shifts away from economics to focus more on psychological, social psychological and sociological explanations. Chapter 7 and 8, for example, explain more about the entrepreneurial process and the psychological theories. In this chapter theories will be explained in terms of how they fit into the broad history of entrepreneurship thought. Most of these theories span the period 1960 to the early 1980s.

**Personality Theory**

Personality theory began to make contributions to the subject of entrepreneurship in the early 1960s. It is considered to have started with the work of McClelland (1955) who
used the concept of the ‘achievement motive’ to describe the behaviour of entrepreneurs. Most early personality theory is described as single trait theory because theorists sought to identify a single trait and link it to a greater propensity to be a successful entrepreneur. Further single trait theories followed including: locus of control (Rotter, 1966); and, risk-taking propensity (Brockhaus, 1982). Each of these theories encountered difficulty proving predictive capability. Partly as a consequence of the lack of predictive success theorists by the 1970s had begun to move away from single trait explanations of the entrepreneurial personality. Instead they offered multi-trait approaches that presented profiles of entrepreneurial characteristics that they felt could help predict a person’s entrepreneurial potential. These profiles often used standardized personality tests (for example, the Behavioural Event Questionnaire). As time progressed these studies began to use ever wider sets of characteristics that they used to measure entrepreneurial potential or success. Studies exploring traits often used varied samples, somewhat struggled to define the entrepreneur in a common way and found it difficult to justify the criteria they used to define ‘entrepreneurial success’ (Gartner, 1989). The predictive value of these personality measures remained elusive and contentious. By the late 1980s a series of researchers questioned the validity of these theories from a philosophical and a methodological stance and argued for a more behavioural or social psychological approach (Gartner, 1989; Chell et al., 1991; Shaver and Scott, 1991).

**Psycho-sociological Theory**

There were a number of theories and approaches that were on the margins of thinking during the dominance of personality theory and the search for the ‘correct’ constellation of entrepreneurial traits. For want of a better term these have been categorized here as psycho-sociological. They include two different forms of displacement theory (Shapero 1971; 1975; Kets De Vries, 1977); and, a social marginality theory (Scase
and Goffee, 1980). The basic premise of these approaches is that entrepreneurs are
displaced people or socially marginal people who have been supplanted from their familiar
way of life and have somehow been forced into an entrepreneurial way of life due to their
circumstances. Displacement includes many categories of people, for example, political
refuges, immigrants, ethnic minorities and other marginalized groups in society. In
contemporary research there is evidence in national business formation statistics, which
supports this idea that certain groups can contribute in an above average way to
entrepreneurial activity. Indeed, these areas of research in more recent years have become
specific subjects in their own right. In Shapero’s (1975) approach displacement came about
through both positive and negative forces; although the majority was perceived to derive
from negative forces. The forces were typically external and societal, which were beyond
the power of the individual to influence. Kets De Vries (1977) in contrast used Freudian
psychology and sought out a psychological explanation of why entrepreneurs feel displaced.
He viewed displacement as both psychological and sociological, with a rebellion against
existing norms and structures being one of a few reasons for psychological displacement.
Kets De Vries (1977) linked much of his thinking on entrepreneurial behaviour back to a
person’s family life and their early family relationships. Although not explicitly linked it
seems likely that more recent research about entrepreneurship which draws on family
issues, gender, minority and immigrant entrepreneurship (as demonstrated in Chapters 9,
10 and 11) may owe their roots to this earlier thought. Displacement and marginalization
as concepts seem to remain embedded in some of these areas of study although theories
about entrepreneurship based wholly on these approaches do not seem to factor in much
mainstream thought today.
Sociological Perspectives

Although, the personality perspective mostly dominated thought in entrepreneurship research during the 1970s and early 1980s, there were a number of significant theories being developed at the time that came to play an important role later. The two most notable were sociological work on organizations which applied a population ecology perspective to the birth and death of firms (Aldrich 1979; 1986; Carroll, 1988) and Greiner’s (1972) paper in the Harvard Business Review that laid the foundations for research on the growth stages of entrepreneurial businesses. In the former Aldrich and Carroll explored how the sociological characteristics of particular markets could help explain business success and failure and in the later Greiner put forward a theory which helped explain how entrepreneurial firms might need to evolve and change as they develop and grow. Alongside these developments in theory there were ongoing shifts in the industrial and political landscape that were to propel entrepreneurship thought into a new phase.

CONTEMPORARY THOUGHT

There is no question that theory and research on entrepreneurship exploded from the early 1970s to the present day. Although the roots, as described here, remain embedded in the subject it has become increasingly diverse and is now a significant discipline in its own right. For example, in 1999 for the US, Katz (2003) counted over 2200 entrepreneurship courses, in over 1600 schools, 277 endowed professorships, 44 English language journals and over 100 research centres. Undoubtedly, these numbers have grown considerably in the 20 years that have passed and there has been substantial growth in the subject outside of the US from the 1990s onwards. There are many causes of this growth.

- First and foremost, there were significant changes during the 1970s and 1980s, for many developed economies, away from an industrial landscape based on a few large
(often publically backed) corporations towards an economy based on smaller businesses. This shift in the industrial landscape has led to a point today where the majority of net new jobs are created by entrepreneurial businesses\textsuperscript{vi}.

- Secondly, alongside this shift in the industrial makeup of advanced economies was a policy shift in government that began to recognize, support and promote entrepreneurship. In the UK this began with the 1971 Bolton Report and culminated with both Conservative (1979-1997) and Labour (1997-2010) governments introducing policies that supported entrepreneurship and in the later period specifically supporting entrepreneurship education.

- Thirdly, as these contextual changes took place, cultural attitudes towards enterprise and entrepreneurs also changed. Particularly from 2000-2010 the number of positive media portrayals of the entrepreneur grew (e.g. Dragon’s Den and the Apprentice) and can be contrasted with the somewhat more negative portrayals of the early 1980s (e.g. Del Boy in Only Fools and Horses).

All of these contextual changes point towards a general shift in society towards more acceptance of the role of entrepreneurship and the academy has mirrored and sometimes supported this change. As a consequence when tracking the growth and diversity of entrepreneurship theory from the 1970s onwards one has to acknowledge the growth of political interest, of funding\textsuperscript{vii} and of course of the number of courses offered and professors employed to teach them. All these new professors need to be active researchers and publish and as a consequence contemporary thinking has expanded exponentially (see Figure 3).
Small Business or Entrepreneurship

The first disjuncture in thought that appears to have occurred in contemporary thinking and created diversity is between those theorists who focus on ‘small businesses’ and theorists who are more interested in ‘entrepreneurship’. While the distinction between the two is inherently unclear, for example researchers have difficulty explaining the difference between an entrepreneur and a small business owner (Carland et al. 1984); there
are definitely differences in focus. The root cause of this disjuncture can be traced back to Schumpeter’s thoughts on the subject; small business researchers typically explore routine business experience (i.e. running a small business) while entrepreneurship researchers focus more on contexts where innovative effort is required (i.e. the start-up process). In general ‘entrepreneurship’ tends to be applied to multiple entrepreneurial contexts, for example ‘new venture creation’, ‘high growth ventures’ or ‘corporate ventures’, while ‘small business’ focuses on established small firms that may be in none of those categories. Researchers and professors still use the terms interchangeably which can often lead to confusion. This split in thought can be charted through the names applied to journals (International Small Business Journal versus Entrepreneurship Theory and Practice) and through the courses offered to students (Small Business Management versus Entrepreneurship). There also seems to be some geographic diversity with Europeans more likely to focus on generic issues, such as small business and ‘enterprise’, while North Americans trend towards a greater focus on entrepreneurship. In terms of theory, due to the lack of clarity in many studies, there is much overlap in the terminology applied and students can even feel this overlap in undergraduate programs. In general though small business researchers tend to focus on the firm as their unit of analysis (as opposed to the individual) or they focus on the policy context supporting small firms. This leads to studies that focus on some key aspect of managerial practice inside a small firm (e.g. marketing; e-commerce or human resource management etc...) or studies that explore key contextual issues that may impact and/or concern small firms (e.g. government policy; training; finance etc...). This category would also include research that builds further on Greiner’s small business growth stages (Scott and Bruce, 1987), which tries to explain the different managerial practices required during different stages of growth.

In more recent years further diversification has occurred within the small business research field to cover particular forms of small business and their particular needs.
The shift was first illustrated by a move towards typologies; or in other words, the means through which researchers have categorized small business owners into different types (e.g. portfolio versus individual or serial business owners). The best example of the general shift was a growing and separate focus on family businesses which has become a subject in its own right with its own journal (Family Business Review), which also has a host of specific issues (e.g. family conflict, succession planning, the role of the spouse etc...). Another clear example of this general trend is a growing emphasis on franchising which crosses several areas of management research including small business management and focuses on issues like: franchisee-franchisor relationships; franchise failure rates; and, the role of a franchise in business growth. Further examples of this diversification in small business research include a growing focus on ethnic minority and immigrant led small businesses and a focus on female led small businesses. While small business research and theory has diversified research that is focused on entrepreneurship has also diversified significantly; the next section explains these developments.

**Diversification and Expansion**

The second shift that appears to have created much diversity in entrepreneurship theory was dissatisfaction with the dominant personality approach at the end of 1970s and early 1980s. During this period dissatisfaction manifested itself in a number of contexts, at slightly different times and in different ways. It was best articulated in two seminal papers by Gartner (1989a; b) where he argued for research to stop exploring ‘who’ entrepreneurs were and explore ‘what’ they did. Much of contemporary thought has since been driven by a desire to explain ‘what’ entrepreneurs do and how they do it. In some respects this period might be described as a paradigm shift with many researchers directing their efforts in new directions. Although there are still researchers who explore the entrepreneurial psychology they do so from a different philosophical stance and fewer researchers than
before focus on the entrepreneurial personality. Theory in entrepreneurship has consequently spun-off in several directions.

First, a focus on what entrepreneurs do and how they do it enabled researchers to begin to look more at the context of entrepreneurial endeavour, the issues encountered and the behaviours used. Initially, the entrepreneurial context was narrowly defined as purely about ‘new venture creation’ (Gartner, 1989a; b) but as time has passed this shift enabled researchers to consider the multiple contexts within which entrepreneurial action occurs. During the 1990s and 2000s a plethora of other contexts for entrepreneurial action began to grow from this behavioural stance. For example, it is not unusual for researchers to now consider specific entrepreneurial contexts like ‘high technology entrepreneurship’; ‘corporate entrepreneurship’; ‘social entrepreneurship’; and, ‘academic entrepreneurship’. What these approaches hold in common is a root Schumpeterian assumption that entrepreneurship is an innovative process, or ‘the making of the road’ as opposed to ‘the travelling along it’. They do, however, agree that the process can occur in different ways in different contexts. For example, creating a new start-up is not entirely the same as creating a new business inside an established organization or spinning out a technology-led venture from a University; they are all forms of entrepreneurship though and the processes involved are quite different from managing established businesses.

Secondly, while there was a behavioural shift in theory that enabled researchers to explore what entrepreneurs do and how they do it this behavioural shift opened up a criticism of entrepreneurial thought inherited from the 1960s, which was its focus on the individual. The assumption was that entrepreneurship is essentially led by individuals acting alone; it was argued that this ‘heroic individual’ myth underlies most entrepreneurship theory (Ogbor, 2000). When taking a behavioural stance though, researchers discovered that there were a large variety of contextual factors and a host of other actors that have an
impact on entrepreneurial processes. A second branch of diversity in theory consequently blossomed from this acknowledgement and began to open up further research avenues, such as work on: entrepreneurial teams; venture capital; business angels; banks; technology transfer offices; incubators; and, business support professionals. The milieu in which entrepreneurial activity occurs became a focus for study and this development is best illustrated by the foundation of some specific journals supporting such work (e.g. Venture Capital and Entrepreneurship and Regional Development).

Thirdly, while many researchers shifted towards a more behavioural, organizational or even sociological explanation of entrepreneurial activity not all researchers were willing to give up trying to understand entrepreneurs and the contribution they make to the entrepreneurial process (Carland, Hoy and Carland, 1988). These theorists split four ways.

- The first group continued to develop, expand and build upon personality theory (Johnson, 1990; Shaver and Scott, 1991) and tried to link the entrepreneurial personality into the context and process in which it is applied.

- The second group, taking a leaf from Kirzner’s work, began to explore the role of cognition and sought to understand the entrepreneur’s capacity to be ‘alert’ to new opportunity (Bird 1988; 1992; Bird and West, 1997). They developed concepts to explain particular entrepreneurial decisions (e.g. opportunity recognition, intentionality and self-efficacy) which helped explain how decisions to start businesses might occur (Schwartz, Teach and Birch, 2005).

- The third group took a different philosophical stance to entrepreneurial personality (Chell 1985; Chell, Haworth and Brearley, 1991) and viewed personality as a social construction. In this approach entrepreneurial behaviour is an archetype created within society to describe how we expect people acting in entrepreneurial ways to
behave. Such work opened up more study on different cultural perspectives as they relate to the way in which entrepreneurship is perceived within different societies and acknowledged that the concept of the ‘individual entrepreneur’ is largely of an Anglo-Saxon origin.

- The final group began to develop concepts to understand how entrepreneurs learn and become more effective as they engage in the entrepreneurial process (Gibb, 2002; Cope, 2003; 2005). This work recognizes the somewhat deterministic stance of prior theory, which is assuming little change in the way entrepreneurs are and how they behave, and takes a more voluntaristic stance, which assumes entrepreneurs and their activities emerge as a consequence of a process through which they live. This group applies the thinking that ‘entrepreneurs change as they learn and engage and businesses perform better as entrepreneurs learn’.

Finally, as researchers have begun to appreciate the behavioural nuances of entrepreneurship, and as the subject has grown, research has begun to focus on entrepreneurship education itself (Pittaway and Cope, 2007). Entrepreneurship education research is now also quite diverse including many subjects and themes, such as, study on: teaching methods; higher education policy; and, institutional support for student entrepreneurs. The behavioural focus that developed in the mid to late 1980s also led to greater recognition that entrepreneurial activity could be learnt which provided more justification for exploring how to improve educational practices and this led to a growth in educational research within the entrepreneurship subject.
Inquiry in Entrepreneurship Research

Up to the present day most of the contemporary approaches described here continued to be developed by entrepreneurship researchers and the contemporary academic journals in the field, the undergraduate textbooks and courses all demonstrate this diversity in theory and thought. Such diversity, however, has led to much confusion and debate about the nature of academic inquiry in entrepreneurship. In addition, in recent years entrepreneurship research has expanded its domain into public policy and practice via applied research, such as, the Global Entrepreneurship Monitor (GEM). The increasing interest of policy makers on understanding how to harness entrepreneurial activity for the good of an economy has led these debates about theory to take on new significance.
Indeed, current changes and shifts in developed countries towards an entrepreneurial economy have also allowed many of the older economic theories (such as Schumpeter’s) to develop a more visible prominence in economic decision making. The final part of the chapter will explore what researchers think about this diversity and how they suggest it should be addressed.

One of the first considerations about entrepreneurship inquiry that causes concern is its multi-disciplinary nature (see Figure 4). The description of the subject’s history explained in this chapter illustrates that it draws from many different economic theories, from different perspectives in psychology, from social psychology and sociology and also from management theory. This diversity is both an advantage and a disadvantage. It provides for an interesting mix of ideas and topics that can be fascinating and that can lead to new ideas but it can also lead to lack of complementarity between theories. Despite the historical nature of the subject outlined in this chapter and due partly to its growth from the 1980s onwards many researchers consider it to be a relatively young subject (Davidsson, Low and Wright, 2001). During the 1980s, in particular, it was considered to be dominated by exploratory studies lacking empirical strength and theoretical depth; which led to calls for new methods to analyze data (Bygrave, 1989). While the subject developed during the 1980s and offered better more effective empirical research it remained somewhat underdeveloped in terms of theory (Shane and Venkataraman, 2000). Increased empirical work followed Bygrave’s (1989) call but methodological sophistication was not necessarily founded on the development of sound theory (Schwartz and Teach, 2000). During the 1990s the subject’s theoretical foundations are considered to have advanced (Gartner, 2001) but it has been generally accepted that this enhancement of theory has led to further fragmentation, diversity and complexity (Brazeal and Herbert, 1999). As the volume of work increased more empirical and conceptual studies have been carried out that are broadly in the domain of entrepreneurship. The expansion of effort from the 1980s onwards
has led to an abundance of new theories, the use of many different units of analysis (e.g. the individual, the firm, the network of firms), the use of many different disciplines and some incompatibility in the methods used to conduct research (Chandler and Lyon, 2001). Different groups of researchers have different solutions to what many see as a common problem of fragmentation in the subject.

- The first group typifies a ‘normal science’ perspective whereby ‘general theories’ are sought to integrate the subject into a conceptual whole (Shane and Venkataraman, 2000). Views here occupy two trajectories: those seeking expansive theories (Shane and Venkataraman, 2000) that incorporate much thinking into a coherent whole and those seeking to draw the boundaries around the subject more tightly (Low, 2001); thereby excluding certain types of study from the subject. In both views entrepreneurship research involves the representation and analysis of phenomena, such as opportunities and ventures, as they occur via observation.

- The second group prefer a ‘pragmatic science’ perspective whereby communities of scholars are encouraged to build research agendas around discrete themes within a general ‘political’ definition of entrepreneurship in which many perspectives are located (Gartner, 2001; Ucbasaran, Westhead and Wright, 2001). These views remain embedded within the ‘scientific’ view of knowledge creation whereby study should build theory and test it empirically.

- The third type can be described as the ‘interpretive’ perspective whereby differing philosophical traditions underpin theorising leading to very different forms of knowledge construction, which are regarded as equally acceptable (Grant and Perren, 2002; Pittaway, 2005).
In summary the response seems to be either to consolidate and/or exclude types of research, defining the subject of entrepreneurship more narrowly, or as an alternative to accept diversity in thinking as a positive outcome for entrepreneurship theory. The different approaches of the groups explained illustrate a community of scholars grappling with a diverse, growing and complicated subject. While it has a long history and deep roots, this is in some respects, a discipline or subject in the making and so it is a good time to be a student of entrepreneurship. In the final part the chapter will summarise the trajectory of entrepreneurship thought, explain what it means and apply it to the learning objectives set out at the beginning.

CHAPTER SUMMARY

This chapter explored the history of entrepreneurship thought. It started with the early economic theorists and highlighted the different Schools of Thought. The chapter showed how the economic thinkers sought to understand the function of entrepreneurship in the economy and discussed the different theories. In the economic thinking there were some clear differences. The early French economists began the process of considering entrepreneurs and thought that they played an important function in the economy. British classical and neo-classical economists largely ignored the role of entrepreneurship and the disappearance of the entrepreneur in contemporary economics can be explained by the dominance of their theories in economics today. The Austrian and Neo-Austrian’s took up the challenge from the French and identified key aspects of entrepreneurial activity, such as, making decisions about the allocation of resources and identifying opportunities when faced with uncertainty. Schumpeter put forward a new interpretation and this view guided much of contemporary thought; the idea that entrepreneurship was about innovation or ‘doing new things’. Towards the end of the chapter early theory in psychology, social psychology and sociology was introduced, here it was explained that the economic focus on
entrepreneurship closed with a recommendation to examine individuals. Personality theory became the dominant form from this point but in the late 1980s researchers began to question its value and approach; which led a diversification of thought from the 1980s onwards. In the final part of the chapter contemporary thinking about entrepreneurship theory was discussed and several branches were explained, each leading to greater diversity in the subject (see Figure 3).

Overall the chapter shows that thinking in entrepreneurship has a long history. It is rooted in the very beginning of economics as a discipline and early economists considered it to be an important function within the economic system. Entrepreneurship as a subject over the years has gone through several phases and has perhaps gone in and out of fashion as economies have gone through periods of change. From the 1980s onwards though the modern subject has blossomed and there are now a wide host of subjects and themes in the field; you will learn more about some of these in the chapters that follow.

QUESTIONS

1. What are the main theories in economics that discuss the entrepreneur? In one of the theories identified explain the role of the entrepreneur in the economy?

2. Kirzner’s theory of entrepreneurship revolves around the concept of ‘alertness to opportunity’. Describe and explain the concept and illustrate the idea as applied to entrepreneurs today?

3. ‘Schumpeter’s theory of economic development presents the entrepreneur as an innovator’. Using examples of contemporary businesses explain the five forms of innovation and explain why they might be considered entrepreneurial?
4. ‘Contemporary theory in entrepreneurship has become fragmented’.

Consider this statement critically, assessing the strengths and weaknesses of this diversity in thinking?

WEBLINKS

http://www.gemconsortium.org/

The Global Entrepreneurship Monitor consortium provides country by country analysis of entrepreneurship.

http://www.kauffman.org/Section.aspx?id=Research_And_Policy

Kauffman Foundation research and policy site provides recent articles on entrepreneurship and the economy.

http://www.oecd.org/topic/

Under ‘industry and entrepreneurship’ the OECD provides studies on entrepreneurship across the OECD countries.

REFERENCES


MANGOLDT, H., (1855), 'Die Lehre vom Unternehmergewinn’, Leipsic.


NOTES

i The Chair of Industrial Economy at Conservatoire des Arts et Metiers which was founded in 1819.

ii Auchy

iii Which might also explain the common use of the French word ‘entrepreneur’ in the English language.

iv Although strictly speaking they should not all be categorized as such.

v Although a few economists, such as, Kirzner and Casson, have continued to focus on the economic role of the entrepreneur.

vi Kauffman Foundation research takes this further and shows that between 1980 and 2005 virtually all net new jobs created in the U.S. were created by firms that were 5 years old or less.

vii In the US one also must acknowledge the role and growth of philanthropy; successful entrepreneurs have often given back to their colleges and created endowed professorships which have also supported the development of the subject.