7 Entrepreneurship and Business Growth

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Entrepreneurship is a concept many people think they understand. Upon closer scrutiny though, entrepreneurship is a very difficult thing to pin down. Does it refer to the creation of firms? If so, then is all business creation entrepreneurship and are all business owners entrepreneurs, from window-cleaners to shop owners, from bakeries to high-tech manufacture? What defines a firm or a firm owner as entrepreneurial? Is it ambition, growth orientation, level of innovation? So does that apply differently in different firms, depending on industry – for example, a technology firm is likely to be highly innovative while a new restaurant may not be; yet that technology firm may have little or no growth while the restaurant may develop to the point where it can become a franchised chain. Which firm is the entrepreneurial one – the innovative one or the growth one or both? And does this mean that a lack of innovation and growth in a firm render it un-entrepreneurial and the individual who created it not an entrepreneur?

Additionally, does entrepreneurship apply where no new firm is created, such as where an existing organization develops and grows, particularly through innovation? If this does not involve entrepreneurship then Apple and BP and Nando's are not entrepreneurial firms. These firms reply on the ability of the people who lead and work in them to act entrepreneurially, and this is referred to sometimes as intrapreneurship. But does intrapreneurship refer to the workers, the management team, both, or does it refer to the organization as an entity in itself? And what do we mean by growth anyway? Are we referring to financial growth and profit? If so, then entrepreneurship cannot exist in social enterprises, charities or the public sector as profit is not possible in these types of organizations. Yet we know some highly innovative developmental activities are undertaken in these sectors, sometimes on a global scale; just think about the value generated by the ice-bucket challenge.

These are just some of the issues and challenges we are faced with when we try to capture what we mean by 'an entrepreneur' and 'entrepreneurship. Despite these, while we may not be able to pinpoint it, there is definitely still something out there that is entrepreneurship. This introductory article will explore some of the ways that we understand entrepreneurship, what we need it for, and why it is important.

Theory and entrepreneurship

There are two main approaches to entrepreneurship theory. The first is the approach often associated with 'the entrepreneur' as an individual. The second is associated with established businesses and their development, 'entrepreneurial organizations'.

■ The entrepreneur

Classic approaches to understanding the concept of the entrepreneur include the Austrian or Economic School. Notably, Knight, Schumpeter and Kirzner are most often referred to as modern entrepreneurship theorists from this economic discipline. These theorists regarded uncertainty and risk as important features of the economic system, and this is what affords entrepreneurs the opportunity to make profit. Other approaches refer to the 'entrepreneurial personality' and the influence of the environment. Each of these will be discussed in turn below.

The economic approach

(e.g., Knight, 1921; Schumpeter, 1939; 1942; 1949; Kirzner, 1973; 1979)

Knight's (1921) *Risk, Uncertainty and Profit* has come to be known as the first work to make substantive contributions to the understanding of entrepreneurship (Carter and Evans, 2012). Knight argued that a market must be in a constant state of uncertainty, referred to as 'disequilibrium', and it is this uncertainty that entrepreneurs exploit. For Knight, the entrepreneur is prepared to undertake risk and the reward is profit.

Joseph Schumpeter understood the key feature of entrepreneurship to be innovation, where innovation created new products, services, and processes. Within capitalist economic structures, social and technological life develop as a consequence of 'creative destruction', the consistent and dynamic process of replacing old methods, products, technologies, etc with new ones. Schumpeter (1942, p. 82-83) defined it thus:

> "the process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one"

Schumpeter considered innovation and perpetual creative destruction as the key drivers of economic growth. Entrepreneurship is described not as an ordinary event or process, instead, Schumpeter (1942) described economic development borne of creative destruction as special and extraordinary. He also argued though that competition among market participants leads to continual development and improvement of technology, services, and of ways of doing business, so these extraordinary events are enabled and encouraged by market competition.

Schumpeter is often cited as if approaching entrepreneurship from an individualist perspective. In fact though, entrepreneurship is presented as a function of large companies instead of the 'heroic' creative labour of a single entrepreneur (Schumpeter, 1949).

For Kirzner, the entrepreneur is associated with those who are alert to errors or gaps in a markets and can identify where fixing the errors or filling the gaps might generate profit. Thus, it is alertness to opportunity that is key to defining the entrepreneur:

> "that element of alertness to possible newly worthwhile goals and to possible newly available resources ... the entrepreneurial element in human decision-making. It is this entrepreneurial element that is responsible for our understanding of human action as active, creative, and human rather than as passive, automatic, and mechanical." (Kirzner, 1973, p. 35).

While Kirzner focuses on opportunities and the ability to identify and leverage profit from them, by referring to alertness and perception as qualities of the entrepreneur, he implies there is a set of personal characteristics or a psychology that contributes to entrepreneurship. This points to a personality-based approach to understanding the entrepreneur and it is to this that we now turn.

The entrepreneurial personality

(e.g., McClelland, 1961; Meredith et al. 1982; Timmons and Spinelli, 2007)

The entrepreneurial personality school identifies entrepreneurship as associated with specific personality or psychological types. For example, Meredith, Nelson & Neck (1982) assert that the entrepreneur possesses five key traits: self-confidence, risk-taking, flexibility, need for achievement, and a strong desire to be independent. Timmons and Spinelli (2007) assert similar, citing high energy but emotional stability, creativity, conceptual ability, vision, and an ability to inspire as amongst the features of an entrepreneur.

On their own, personality-based approaches to understanding entrepreneurship are weak: no study has identified a core 'set' of entrepreneurial characteristics, and no study has definitively separated the qualities of a good manager from a good entrepreneur. Nevertheless, studies have found robust correlation of some traits and qualities with entrepreneurship. One of the most famous empirical studies of the entrepreneurial personality was by McClelland (1961). McClelland studied the needs of various individuals, classifying them as achievement-, power- or affiliation-oriented. He found entrepreneurs to score highest in the need for achievement category. Need for achievement describes a strong desire to excel; achievers seek neither power nor approval, but rather, their focus is on success. They assume responsibility for solving problems and they set challenging targets for themselves and bear deliberate risk to achieve them. Such individuals look for innovative ways of performing, and they perceive achievement of goals as the reward. McClelland argued that the need for achievement is the key psychological characteristic of an entrepreneur. He also noted though that need for achievement may not be innate, but may be acquired, and culture is a particular influence.

Timmons and Spinelli (2007) also note that many skills can be acquired. They extend this beyond the cultural to include the formal development of skills and abilities that can be useful to acting entrepreneurially. This points to the influence of the socio-economic world on behaviour, discussed in the next section.

Socio-economic environment approach

(e.g., Global Entrepreneurship Monitor)

Rates of entrepreneurship vary region by region and some demographic features, such as race and gender, seem to have an effect on them. If entrepreneurship was about personality alone, this could not happen. The socio-economic environment, including structure, economic system, culture and conditions affect entrepreneurship. The Global Entrepreneurship Monitor (GEM) is a multi-country study of the rates of business creation throughout the world and it shows that different conditions have a large effect on both the rates and the types of entrepreneurship found in a country (global and national reports available at www.gemconsortium.org). GEM looks closely at structural, policy and cultural conditions in a country to see the extent to which entrepreneurship is affected. Some conditions are obvious; for example, in the absence of availability of state welfare, rates of self-employment are very high. In this case, entrepreneurship is not a positive feature; in response to poverty and lack of economic alternatives entrepreneurship is not correlated with innovation and opportunity. Entrepreneurship rates and quality are affected by other structural conditions such as policy, legislative infrastructure, access to finance, com-