

Chronological Development of Entrepreneurship Concept – A Critical Evaluation

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Abstract In any economy entrepreneur is the central figure of economic activity and propeller of development of free enterprise because agriculture or industrial development is brought out by the entrepreneurs. But despite being an exciting and important area of study, entrepreneurship research has been characterized by little consistency or concrete theory due to the concentration on different types of attributes including psychological to information and coordination at different times for defining entrepreneurship. So lack of uniformity in the theory of entrepreneurship motivates the researcher to conduct this research and also to find out the development of entrepreneurial concepts over time or in chronological order. For this the development of entrepreneurial concepts is divided into four eras after 18th century in this paper. From this division it is found that in the classical and early neoclassical era of entrepreneurship concepts were based on psychological and managerial attributes. But in the mature and modern neoclassic eras of entrepreneurship concepts were based on Spirit of capitalism, uncertain environment, Need for achievement, Gap-filling ability, Limitation structure, Demand structure, Opportunity structure and Labor structure, Alert to profitable opportunities, Coordination of scarce resources under uncertainty along with psychological and managerial attributes.

Keywords Entrepreneur, Industrial development, Attributes, Classical, Neoclassical, Modern

1. Introduction

Economic development and entrepreneur are closely related to each other. In any economy entrepreneur is the central figure of economic activity and propeller of development under free enterprise because agricultural or industrial development is brought out by entrepreneurs. The development or under development of an economy is the reflection of the development and or underdevelopment of entrepreneurship in the society. Although it is an exciting and important area of study, entrepreneurship research has been characterized by little consistency or concrete theory (Baumol, 1968; Herbert & Link, 1989; Kirchhoff, 1991; Van Praag, 1996; Wennekers & Thurik, 1999; Verheul et al., 2001). As a result, an important area like entrepreneurship still remains ill-defined (Wennekers & Thurk, 1999). Moreover, researchers in this area concentrated on different types of attributes including psychological to information and coordination at different times for defining entrepreneurship. This consideration of a wide variety of attributes by the different researchers at different time and circumstances for defining entrepreneurship complicates the development of a uniform theory of entrepreneurship

irrespective of time region and circumstances. Further, according to Kirchhoff (1991), the absence of a widely held theory of entrepreneurship constrains not only economics but also all the disciplines that extend their interests into the entrepreneurship arena (Ruta Aidis, 2003). So, it would be worthwhile to conduct a study on the chronological development of the entrepreneurial concept over time that may help the researchers to develop a well-accepted definition of entrepreneurship future.

2. Entrepreneurship at Different Eras

Concepts of entrepreneurship given by the economists at different time will be discussed in this paper according to Ruta Aidis (2003) division according to time, where concepts of entrepreneurship are grouped into four eras as follows:

1. Classical Era of entrepreneurship concept
2. Early Neoclassical Era of entrepreneurship concept
3. Mature Neoclassical Era of entrepreneurship concept
4. Modern Neoclassical Era of entrepreneurship concept

2.1. Classical Era of Entrepreneurship Concept

This era includes 16th century to before the end of the 19th century (Islam and Mamun, 2000). At that time it had been thought that the internal attitude and ability to judge and forecast the situation lead a man to become a successful entrepreneur (Islam and Mamun, 2000). In the early 16th

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century it was applied to those who were engaged in military expedition. In the 17th century it was extended to cover civil engineering activities such as construction and fortification (Cochran, 1968). It was only in the beginning of the 18th century that the word was used to refer to economic activities. The entrepreneur and his unique risk bearing function was first identified in the early 18th century by Richard Cantillon, an Irishman living in France, who defined entrepreneur as a person who buys factor services at certain prices with a view to selling it at uncertain prices in the future (Kilby, 1971). Cantillon thought of an entrepreneur as a bearer of non-insurable risk. This forms a unique constitutive function of entrepreneurship. The classical definition of entrepreneurship which was to survive for almost two centuries, it was given by an aristocratic industrialist, Say, who had unpleasant practical experiences. His definition associates the entrepreneur with the function of co-experiences. His definition associates the entrepreneur with the function of coordination, organization and supervision. According to him an entrepreneur is the most important agent of production who provides continuing management and brings together the factors of production. He also opined that an entrepreneur must have judgment, perseverance and knowledge of the world as well as that of business and must possess the art of superintendence and administration (Cochran, 1968). Though Say emphasizes coordination and supervision explicitly, yet there are three more implicit factors, which form the crux of entrepreneurship. Firstly, moral quality for the work which includes judgment, perseverance and the knowledge about the environment within which the business is functioning. Secondly the prospective entrepreneur should have command over sufficient capital resources. The third factor refers to the uncertainty of profits. Now we can display the concepts of entrepreneurship in this era in table 1.

Table 1. Times, Contributor & Attribute of the Classical Era of Entrepreneurship Concept

Year	Economists	Entrepreneurial Attributes
1755	R. Cantillon	Entrepreneur as speculator
1800	J.B. say	Coordination

2.2. Early Neoclassical Era of Entrepreneurship Concept

The entrepreneurship concepts given during the end of 19th century to the mid 20th century are called neoclassic era of entrepreneurship (Ruta Aidis, 2003). In the neoclassic era Alfred Marshall played a crucial role in shaping neoclassical economic thought of entrepreneurship (Ruta Aidis, 2003) because the concept of entrepreneurship did not find any place in early English economic thought. It was Alfred Marshall in 1890 summarized the concept of entrepreneur or entrepreneurship thus ... in the greater part of the business of the modern world the task of so directing production that a given effort may be most effective in supplying human wants has to be broken up and given into the hands of a specialized body of employers, or to use the general term of businessmen.

They adventure or undertake it risks; they bring together the labor and capital required for the work, they arrange or engineer its general plan, and superintend its minor's details, looking at businessmen from one point of view we may regard them as highly skilled industrial grade, from another as middlemen intervening between the manual worker and the consumer (Cochran, 1968). According to Barretto (1998) Marshall actually described the various roles of entrepreneurs including that of coordinator, innovator, and arbitrageur (Ruta Aidis, 2003).

In the early 1900's Frederick Barnard Hawley gave another concept, where he identified the role of the entrepreneur as owner of output and the bearer of uncertainty. For Hawley, enterprise was not a productive factor or means; enterprise was a motivational force (Barretto, 1998). From Cantillon to Hwaley, entrepreneurial concept was treated in the same manner and entrepreneurship was elevated to the fourth factor of production, though this function was identified by different names. Nothing was done on the supply side of this factor of production. No supply curve was completed. Moreover, all these economists considered entrepreneurship in the context of stationary equilibrium but all of them failed to recognize it as a force in economic development. For the first time Joseph Schumpeter in his book 'The Theory of Economic Development (1912), put the human agent at the center of the process of economic development. He also thought that economic development could be generalized by five different types of events and whoever can initiate these events may be termed an entrepreneur. These events are:

1. Introduction of a new product in the market;
2. Introduction of new production technology;
3. Creation or discovery of a new market;
4. Finding new sources of supply; and
5. New organization of any industry.

According to Schumpeter, economic development is not an automatic process; it must be deliberately and actively promoted by some agency within the system. He called the agent who initiates the above changes as an entrepreneur. He added the agent who provides economic leadership that changes the initial condition of the economy and causes discontinuous dynamic changes is an entrepreneur. According to Schumpeter an entrepreneur is an 'innovator' and his 'innovation' is a creative response to a situation.

Frank Knight, a famous economist, in his Ph D dissertation "Risk, Uncertainty and Profit" in 1921 (Ruta Adiis, 2003), described entrepreneurs to be a specialized group or persons who bear risks and deal with uncertainty (Cochran, 1968). Again, uncertainty is defined as the risk, which cannot be calculated. According to Knight, the entrepreneur is the economic functionary who undertakes such responsibility, which by its very nature, cannot be insured. He also assured specified sums to others in return for assignments made to them. The supply of entrepreneurship involves three factors. These are ability, willingness and power. Knight has gone a step ahead and has also located the psychological, social and economic factors

which govern the supply of entrepreneurship. Francis Edgeworth in 1925 viewed the entrepreneur as a coordinator (combining factors of production) and arbitrageur or middleman (connecting product and factor markets). However he never fully developed a theory of entrepreneurship. Still as a leading neoclassical economist, Edgeworth's recognition of the special role played by the entrepreneur is noteworthy since unlike other neoclassical economists, he refused to eliminate entrepreneurial considerations from his explanatory scheme (Ruta Aidis, 2003). Finally, we summarize the contributor of this era in table 2.

Table 2. Times, Contributor & Attribute of the Neoclassical Era of Entrepreneurship Concept

Year	Economists	Entrepreneurial Attributes
1890	A Marshall	Coordination, Innovation, Arbitration
1907	F.B. Hawley	Uncertainty bearer
1911	J. Schumpeter	Innovation
1921	F. Night	Making decision in an uncertain environment
1925	F. Edgeworth	Coordination

2.3. Mature Neoclassical Era of Entrepreneurship Concept

Ruta Aidis (2003) identified the time period from mid 20th century to end of the 20th century as mature neoclassical era. In this mature neoclassical era, Maurice Dobb (1925) identified the entrepreneur as an agent who carries out innovations and as such is the source of economic development and is the driving force behind the capitalist system. In this context, it is not necessary for the entrepreneur to be a capital owner, manager or to be the bearer of uncertainty. For Dobb, entrepreneurship is something essentially active and creative and in this sense, Dobb's entrepreneur played a central role in the capitalist market process. In comparison to many other entrepreneurship theorists, Charles Tuttle applied a very strict definition of entrepreneurship in 1927. Tuttle viewed the entrepreneur as a responsible owner in an uncertain environment. Though Tuttle does not present an extensive theory on entrepreneurship, the entrepreneur plays an active role in his analysis (Barreto, 1968).

Three years later of the above concept of entrepreneurship given by Tuttle, famous German social scientist Max Webber (1930) in his famous book "The Protestant Ethic and the Spirit of Capitalism" first analyzed religion and its impact on enterprising culture in the western context (Parsons, 1974). According to Webber the spirit of capitalism is a set of attitudes towards the acquisition of money and the activities involved in it. Webber also draws a line of demarcation between the spirit of capitalism and adventurous spirit. The spirit of capitalism is subjected to a strict discipline, which is quite incompatible with giving free

rein to impulse. Webber states that spirit of capitalism cannot generate in itself where widespread mental attitude, favorable to capitalism is absent and according to him the protestant ethic provides the mental attitude.

Cole defines entrepreneurship as the purposeful activity of an individual or a group of associated individuals who undertake to initiate, maintain or aggrandize a profit oriented business unit for the production or distribution of economic goods and services (Singh, 1966). Hoselitz (1952) says, In addition to being motivated by the expectations of profit entrepreneur must also have some managerial abilities and, more importantly he must have ability to lead. He maintains that financial skills have only a secondary consideration in entrepreneurship and comments that managerial skills and leadership are the most important factors of entrepreneurship. He identifies three types of business leadership in the analysis of economic development of underdeveloped countries. They are the merchant money lender type, the managerial type and the entrepreneur type. The merchant money lenders' function is predominantly market oriented. The managerial function has authoritarian orientation and the function of entrepreneurs along with the above two orientations, calls for individuals with free dominant production orientation. Hoselitz's (1952) explanation of entrepreneurship naturally suggests a method for the development of entrepreneurship, which depends upon allowing the maturation and development of personalities. According to Hoselitz's (1952) explanation the orientation of these is in the direction of productivity and creativity resulting in the establishment of social institutions, which create a favorable environment for the establishment of independent individual enterprise. Hoselitz (1952) also suggests that entrepreneurship can develop in a society when its culture permits a variety of choices and where social processes are not rigid and in a situation, which encourages the development of personalities interested in enterprise. Harbison (1956) says, "To be an entrepreneur a person must possess the qualities of an organization builder". He must be able to harness the new ideas of different innovators to the rest of the organization. Such persons are not always the men with ideas or men who try new combinations of resources but they may simply be good leaders and excellent administrators. Harbison's (1956) definition of entrepreneurship lays more stress on the managerial skills and creativity so far as organization is concerned. His definition as it appears, is not far from Schumpeter's concept of innovation. It also allows creating of new organization as innovative and Harbison (1956) also emphasizes the organization building ability. But Harbison (1956) maintains that the ability to create an organization is the most crucial skill which facilitates the economic use of other innovations. If the skill is absent, other innovations fall to stimulate economic development (Monahar, 1982).

McClelland (1961) describes the innovative characteristics of entrepreneurial role. Entrepreneurial role, by definition, involves doing things in a new and better way. A businessman who simply behaves in a traditional way is

not an entrepreneur. Moreover, entrepreneurial role calls for decision making under uncertainty. If there is no significant uncertainty and the action involves applying known and predictable results, then entrepreneurship is not at all involved.

McClelland (1961), like others, identifies two characteristics of entrepreneurship, first, doing things in a new and better way which is synonymous with the innovative characteristics given by Schumpeter, and second, decision making under uncertainty that is risk as identified by Cantillon. McClelland, more, explicitly, emphasized the need for achievement or achievement orientation as the most directly relevant factor for explaining economic behavior. This motive is defined as a tendency to strive for success in situations involved and of one's performance in relation to the same standard of excellence (Morgan, 1964).

Hagen (1962) on the other hand, states that the transition to economic growth has been very gradual and typically occupies a period of several generations. He argues that growth has been achieved not by individuals randomly distributed throughout a society but disproportionately by individuals from some distinctive group. He identifies creative innovation or change as the fundamental characteristic of economic growth. Hagen (1962) after analyzing the traditional societies maintains that the positions of authority are granted in such societies not on the basis of individual ability but not on the basis of his status. This structure is characterized by typical authoritarian personality. In contrast Hagen (1962) visualizes an innovational personality. Hagen concepts of innovation involve both arriving at a new mental concept and transmitting that concept into material Again innovation requires creativity and creative individuals cause economic growth.

Another economist named Liebenstein (1968) distinguishes two broad types of entrepreneurial activity. First, the "routine entrepreneurship" that is associated with the managerial function of the business. Second, the new type entrepreneurship that is basically of Schumpeterian type. He identified gap-filling as an important characteristic attributable to entrepreneurship. In economic theory, the production function is considered to be well defined and completely known. But the theory is silent about where and to who in the firm this knowledge is supposed to be available. In reality there exists a large gap of knowledge about the production function. There are many deficiencies so far as the production function is concerned. It is the entrepreneurial function to make up the deficiencies or to fill up the gaps. These gaps arise because all the inputs in the production function cannot be marketed because some inputs like motivation, leadership, etc. are abstract in their nature and the output is indeterminate. This gap-filling activity gives rise to a most important entrepreneurial function, namely, input completing. An entrepreneur has to marshal all the inputs to realize final products. On the supply side of entrepreneurship, Liebenstein explains that supply of entrepreneurship is governed by input-completing capacity

and inadequate motivational state. Secondly investment criterion also affects the supply of entrepreneurship and suggests that a lower profit investment that releases entrepreneurial energies and capacities may be more fruitful in the long run than a higher profit investment. Lastly, training can do something to increase the supply of entrepreneurship, through all the characteristics cannot be developed through training.

Considering the above concepts of entrepreneurship in this era the essentials attributes for becoming an entrepreneur are shown in table 3.

Table 3. Times, Contributor & Attribute of the Mature Neoclassical Era of Entrepreneurship Concept

Year	Economists	Entrepreneurial Attributes
1925	M. Dobb	Innovator
1927	C. Tuttle	Owner of the uncertain environment
1930	Max Weber	Spirit of capitalism
1952	Hoselitz	Managerial skills and leadership
1956	Harbison	Organizing quality
1961	McClelland	Need for achievement
1962	Hagen	Authoritarian personality
1968	Libenstein	Gap-filling ability

2.4. Modern Neoclassical Era of entrepreneurship Concept

At the early stage of modern neoclassical period, Kunkel (1970) has put fourth a theory or entrepreneurial supply. He has made a behaviorist model of entrepreneurship. He argues that the marginality does not guarantee entrepreneurship. There must be some additional significant factors at work. He states that the industrial entrepreneurship depends upon four structures, which are found in a society or community. These are:

a) Limitation structure: The entrepreneur is viewed as the most important deviant individual in economic development and the major determinant which causes such a deviance in a social structure which restricts the behavioral pattern of a population segment. The society limits specific activities to members of a society.

b) Demand structure: The demand structure is completely economical and it is not static and changes with economic progress and Government policies. Demand structure can be improved by providing material reward. These rewards are necessary to lay the foundation for future social gains.

c) Opportunity structure: This structure is necessary to increase the probability of entrepreneurial activity. The opportunity structure is constituted by the availability of capital, management and technological skills, information concerning production method, labor and markets.

d) Labor structure: Kunkel separates supply of competent and willing labor from the opportunity structure. He states

that the labor supply cannot be viewed at par with the supply of other material conditions like capital. He says that labor means men and is a function of several variables. The supply of factory labor is governed by an available alternative means of livelihood, traditionalism and expectations of life”.

According to Kunkel (1970) the supply of entrepreneurs depends on the existence and extent to which these four factors are found in a society and proposes the hypothesis that “... the incidence of entrepreneurship depends on both the objective structures and the actual incidence of entrepreneurs will be due to inadequate or incorrect perceptions of the various structures...”. It is evident, however, that entrepreneurship depends on rather specific combinations of circumstances which are difficult to create and easy to destroy.

In this era Israel Krizner again defines the entrepreneur as the arbitrator and someone alert to profitable opportunities in his book, “Competition and Entrepreneurship” (1973). Krizner’s entrepreneur is not the bearer of uncertainty nor does she/he fill the role of coordinator or manager in the production process. In his book, *The Entrepreneur: An Economic Theory* (1982), Mark Casson defines the entrepreneur as an individual who has different skills which enables her/him to make judgments to coordinate scarce resources. According to Casson, the entrepreneur operates within a set of technological conditions and by making difficult judgment decisions, the entrepreneur is able to enjoy the reward of profit. This allows the entrepreneur to coordinate demand and supply under uncertainty (Deakins, 1956). A more expansive definition of the entrepreneur is presented by William Baumol in his book, *Entrepreneurship, Management and the Structure of Payoffs* (1993). Baumol incorporates two functions of the entrepreneur: as a Schumpeterian innovator and as a manager. Baumol maintains that entrepreneurs do not appear and disappear; but the numbers of productive or unproductive entrepreneurs change in terms of the existing incentive structures. For Baumol, productive entrepreneurial activity refers to any activity that contributes directly or indirectly to net output of the economy. Conversely, an unproductive entrepreneur is engaged in innovative activity but makes no contribution to the real output of the economy (Deakins, 1996). Higgins (Desai, 1992) defines the term entrepreneurship as “... The function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labor, arraigning for the supply of raw materials and selecting top managers for the day to day operation of the enterprise”. According to Drucker (Desai, 1992), “Entrepreneurship is neither a science nor an arts. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, what constitutes knowledge in practice is largely defined by the ends that are by the practice”.

Now the attributes extracted from the definitions of the entrepreneurship in this era can be displayed in the following table 4.

Table 4. Times, Contributor & Attribute of the Modern Era of Entrepreneurship Concept

Year	Economists	Entrepreneurial Attributes
1970	Kunkel	Limitation structure, Demand Structure Opportunity structure, Labor structure
1973	Israel Kirzner	Arbitration and alert to profitable opportunities
1982	Mark Casson	Coordination of scarce resources under uncertainty
1993	William Baumol	Innovation and manager influenced by existing incentive structure

3. Conclusions

Entrepreneurship is not just a way to increase the level of innovation and productivity of organizations. Although it will do that more importantly, it is a way of organizing vast business so that work becomes a joyful expression of one’s contribution to society. The concept of entrepreneur and entrepreneurship incorporates basic qualities of leadership, innovation, enterprise, hard work, vision and maximization of profits. He is an able motivator and brings in change for the betterment of the society. All his socio-economic, organizational and managerial qualities are always directed towards the well being of the society or community. He is committed to progress. He is a catalytic agent of development and change. Personal satisfaction and monetary rewards are blended with social betterment and welfare of mankind. Thus, the concepts of entrepreneur and entrepreneurship have been investigated from economic, social, political, cultural, managerial and environmental points.

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