DEFINITIONS OF ENTREPRENEURSHIP

By Alan S. Gutterman

Abstract

Few topics in the business area have attracted more attention among academics and journalists than entrepreneurship and this report describes efforts to reach a consensus on a fundamental question: ‘what is entrepreneurship?’ Efforts to make the traits and characteristics of the individual “entrepreneur” have led to unsatisfactory results and it would appear that the more viable and useful approach is to view entrepreneurship as a process that includes the discovery, enactment, evaluation and exploitation of opportunities to create future goods and services.

Few topics in the business area have attracted more attention among academics and journalists than “entrepreneurship”. Research regarding “entrepreneurship” has been made challenging by the absence of a consistent definition of the term across the universe of studies on the topic. Many researchers have focused on the economic function served by the entrepreneur. For example, one of the earliest definitions of entrepreneurship focused on merchants who were willing to assume the risks of purchasing items at certain prices while there was uncertainty about the prices at which those items could eventually be resold. Later definitions began to focus on the risks and challenges associated with combining various factors of production to generate outputs that would be made available for sale in constantly changing markets. Schumpeter was one of the first to include innovation in the definition of entrepreneurship and believed strongly that the proper role of the entrepreneur was creating and responding to economic discontinuities. Others involved in the study of entrepreneurship focus on the personality traits and life experiences of the entrepreneur in an attempt to generate lists of common entrepreneurial characteristics—propensity for “risk taking”, need for achievement and childhood deprivation. While these studies are interesting they have generally been far from conclusive and often have generated conflicting results.

Gartner surveyed the landscape of the attempts to define entrepreneurship and concluded that finding a common definition of the entrepreneur remains “elusive”. Garner quoted

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an observation made by Cole in 1969: “My own personal experience was that for ten
years we ran a research center in entrepreneurial history, for ten years we tried to define
the entrepreneur. We never succeeded. Each of us had some notion of it—what he
thought was, for his purposes, a useful definition. And I don’t think you’re going to get
farther than that”.^4 The words of Borkhuas and Horwitz, who reviewed the literature on
the psychology of the entrepreneur in the mid-1980s, struck a similar note: “The literature
appears to support the argument that there is no generic definition of the entrepreneur, or
if there is we do not have the psychological instruments to discover it at this time. Most
of the attempts to distinguish between entrepreneurs and small business owners or
managers have discovered no significant differentiating features”.^5 Gartner also counseled against the so-called “trait approach” that focuses on identifying
“entrepreneurs”.^6

Acknowledging the lack of a universally accepted definition of entrepreneurship, Hessels
did comment that “[t]here seems to be agreement . . . that entrepreneurship involves the
creation of something new”.^7 For Gartner, that “something new” was a “new
organization” and he suggested that the most fruitful path for studying entrepreneurship
was to view it as a process that includes a series of behaviors and activities intended to
create organizations. 8 Davidsson et al. referred to entrepreneurship as “the creation of
new economic activity” that occurs both through the creation of new ventures and new
economic activity of established firms.^9 Use of the concept of “creation of new economic

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^4 Id. (quoting A. Cole, “Definition of Entrepreneurship” in J. Komives (Ed.), Karl A.
Bostrom Seminar in the Study of Enterprise (Milwaukee, WI: Center for Venture
Management, 1969), 10-22, 17)

^5 Id. (quoting R. Brockhaus and P. Horwitz, “The Psychology of the Entrepreneur” in D.
Sexton and R. Smilor (Ed.), The Art and Science of Entrepreneurship (Cambridge, MA:
Ballinger, 1985), 42-43)

^6 Id. at 26.

^7 J. Hessels, International Entrepreneurship: An Introduction, Framework and Research
Agenda (Zoetermeer, The Netherlands: Scientific Analysis of Entrepreneurship and
SMEs, 2008), 6 (citing P. Reynolds, N. Bosma, E. Autio, S. Hunt, N. De Bono, I. Servais,
P. Lopez-Garcia and N. Chin, “Global Entrepreneurship Monitor: Data Collection Design

^8 W. Gartner, “‘Who is an Entrepreneur?’ Is the Wrong Question”, American Journal of
Small Business, Spring 1988, 11-32, 26. Gardner argued that all of the different studies
of entrepreneurship that can be identified in the field actually begin with the creation of
new organizations including research on “psychological characteristics of entrepreneurs,
sociological explanations of entrepreneurial cultures, economic and demographic
explanations of entrepreneurial locations, etc.”. Id.

^9 P. Davidsson, F. Delmar and J. Wiklund, “Entrepreneurship as Growth; Growth as
Entrepreneurship” in P. Davidsson, F. Delmar and J. Wiklund (Eds), Entrepreneurship
and the Growth of Firms (Cheltenham, UK: Edward Elgar Publisher, 2006), 21-38, 27.
activity” includes not only the creation of new organizations championed by Gartner but also recognition and exploitation of opportunities, conversion of new ideas into innovations and even imitative behavior that is new to a firm.\(^\text{10}\) It is not necessary that the same person or entity that discovered an opportunity actually exploit that opportunity and entrepreneurship should be defined broadly enough to include the sale of opportunities to others. For that matter, discovery of a new technology should not be a prerequisite to entrepreneurship with respect to that opportunity and the concept of entrepreneurship should include actions taken to interpret the capabilities of the technology so as to identify applications of the technology that eventually become the foundation of opportunities.

All of the foregoing was taken into account by Shane and Venkataraman when they defined entrepreneurship as “the process by which ‘opportunities to create future goods and services are discovered, evaluated and exploited’”.\(^\text{11}\) Shane et al. highlighted several key points that followed from using this definition.\(^\text{12}\) For example, the definition does not require that the entrepreneur be a firm founder, a common assumption in the research relating to entrepreneurship, and allows for the fact that new and innovative ideas for goods and services can come from anywhere in the organizational hierarchy and not just from the top (i.e., business owners or founders).\(^\text{13}\) In addition, it calls for interpreting entrepreneurship as a “process” rather than a one-time event, action or decision. For example, the decision to form and organize a new firm, while important, is just one of a series of actions that must be taken in order to effectively discover, evaluate and exploit an opportunity. Finally, the definition recognizes that entrepreneurship is based on “creativity”, which can include not only uncovering new ideas and knowledge but also arranging resources in ways that have not been done before. There is no minimum threshold of “creativity” that must be met in order to qualify as entrepreneurship and, as Shane et al. pointed out, “the degree of creativity involved in entrepreneurship varies across the types of resource recombination that occurs”.\(^\text{14}\) Later, Oviatt and McDougall


\(^{13}\) Others have also argued that people other than firm founders or business owners, such as sales managers developing new ways to market products and services to target markets, can be “entrepreneurs”. See, e.g., D. McClelland, The achieving society (Princeton, NJ: Van Nostrand, 1961) and I. Kirzner, Competition and Entrepreneurship (Chicago, IL: University of Chicago Press, 1973).

added to this definition by referring to entrepreneurship as “the discovery, enactment, evaluation, and exploitation of opportunities . . . to create future goods and services”.

The Global Entrepreneurship Monitor (“GEM”), a partnership between London Business School and Babson College that has been administering a comprehensive research program since 2001 to produce annual assessments of national levels of entrepreneurial activity, broadly defines entrepreneurship to include “… 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, teams of individuals, or established businesses”. J.G. Burch, who has written extensively on the subject, has referred to entrepreneurship as the “initiation of change” and the “process of giving birth to a new business.” Burch has also developed a list of the following categories of innovations that tend to be the specific byproducts of entrepreneurial activities:

- Introduction of a new product or service that is an improvement in the quality of an existing product or service.
- Introduction of a new process or method that increases productivity.
- The opening of a new market, particularly an export market in a new territory.
- The conquest of a new source of supply of raw materials, half-manufactured products or alternative materials.
- The creation of a new organization.

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