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Understanding entrepreneurship

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Entrepreneurship is high on today's social agenda. Yet since the days of Richard Cantillon, a French economist who first introduced the term 'entrepreneur' in 1755, this has been one of the mostly vaguely defined topics in economics. This article offers a brief overview of the modern debate on entrepreneurship and entrepreneurs.

Who is an entrepreneur?

Modern social science sees an entrepreneur as a person who discovers profitable opportunities available on the market, takes advantage of them by introducing a specific product or service, and assumes risks and responsibility for running a project or enterprise. It is those functions that distinguish the entrepreneur from the worker, who simply follows the instructions set by management without venturing on his or her own.

What are the key issues regarding entrepreneurship?

Entrepreneurs are an important factor for economic success, as their presence reduces unemployment and promotes innovation and growth. The dynamics of their share in the UK's population, currently put at 6.3% by Global Entrepreneurship Monitor (GEM), mirrors the country's sound economic performance. What makes an entrepreneur is therefore the key issue in this research area.

The latest thinking asserts that successful accomplishment of entrepreneurial functions requires the right mix of personal qualities, such as perseverance, creativity, experience in a number of areas, flexibility, risk-taking and responsibility, as well as learning skills. On the other hand, opportunities in paid employment, costs and availability of credit, cultural values and other external factors define whether or not it is worth one's while to become an entrepreneur, even if one has what it takes. These two groups of factors jointly influence the share of entrepreneurs in society.



What is best practice in entrepreneurship?

Although entrepreneurs must have the right combination of personal qualities they do not necessarily have to set up or own any business, as their core functions can be fulfilled within existing organisations. In fact, there is a growing evidence for large businesses fostering intra-company entrepreneurship by various means ranging from incentive pay schemes to giving more autonomy to key units, making them similar to separate businesses. This kind of 'institutionalised' entrepreneurship is particularly relevant for those industries (eg, pharmaceuticals, electronics) where talent input is high and market demand steadily increases, which triggers innovation and entrepreneurial activity, but where at the same time the business start-up costs, risk of failure and efficient scale of operations are quite big, which makes it hard to set up a new venture.

What are the implications for practitioners?

The latest findings on entrepreneurship sound positive on its socio-economic impact. On the macro level, entrepreneurs help relieve pressure on the labour market and make the economy more flexible and competitive. It is also beneficial for society at large to have more entrepreneurial members, responsible for their own well-being and less reliant on welfare provisions from the state. Companies promoting internal entrepreneurship gain by fostering innovation, retaining valuable employees and saving on operational expenses by having leaner organisational structures thanks to the strong commitment, efficiency and versatility of their employees.

Thus the policy implication of the latest findings on entrepreneurship is clear: it must be promoted on all levels. After all, as Edward Lazear, a Stanford University personnel economics guru, puts it, "the entrepreneur is the single most important player in a modern economy".

Key further reading

Recent data and country reports:

www.gemconsortium.org

Theories of entrepreneurship:

Schumpeter, J. A. (1985) *Theory of Economic Development*. Oxford University Press.

Westhead, P. and M. Wright (eds.) (2000) *Advances in Entrepreneurship*, in three volumes. Cheltenham, Edward Elgar Publishers.