

# Entrepreneurship Concept, Theories, and New Approaches

**José Manuel Saiz-Alvarez**

*Tecnologico de Monterrey, Mexico*

**Martín García-Vaquero**

*Nebrija University, Spain*

## INTRODUCTION

In today's world, have a good number of active entrepreneurs is key to determining good corporate health of a country. Entrepreneurs discover and exploit new business opportunities guided by intuition (Saiz-Alvarez, Coduras, & Cuervo-Arango, 2013) and risk control, while motivating social change. Complementary to entrepreneurs, capitalists only invest their money searching for share profitability, and managers, as decision-makers, foster mainly first-order competitive advantages in the company (R&D and innovation) by enhancing competition (Cuervo, Ribeiro, & Roig, 2007). When competition is strong, firms are achieving continuous improvements over time, which benefits their stakeholders.

Contrary to Van Praag and Van Ophem (1995), who affirm entrepreneurship was first studied in Cantillon's *Essai sur la nature du commerce en général*, published in 1755, the concept of entrepreneur (in the sense of merchant) was first studied in Spain in the second book of Tomás de Mercado's *Tratos y contratos de mercaderes y tratantes discididos y determinados* [Deals and Contracts Applied to Certain Merchants and Traders], published in 1569, and reedited with a few tweaks in 1571, as *Suma de tratos y contratos* [Treaty on Deals and Contracts]. Regarding entrepreneurship, Tomás de Mercado approves new business and exchange trade, only if they are consistent with the moral rules based on not taking advantage of others by using abusive prices and

interest rates, or by conducting unfair agreements, both socially and economically.

This connection between moral acts and entrepreneurship continues, with exceptions, until today. In fact, entrepreneurs must be involved in the study of sources for discovering, and achieving new business opportunities, in order to exploit them (Shane and Venkataraman, 2000). As a result, and given the impact of entrepreneurship in a country, «contemporary economic theory recognizes entrepreneurship as an independent factor of production on a more-or-less equal footing with land, labor, and capital» (Hébert and Link, 1989, p. 40). The objective of this work is to define entrepreneurship, and the classical and new theories of entrepreneurship, both from economic and psychological perspectives.

## BACKGROUND

### ENTREPRENEURSHIP: CONCEPT

Entrepreneurship can be analyzed following a multiple perspective, generating a multidimensional concept (Bula, 2012). While the study of entrepreneurship began for Economics and Managerial Sciences in the second half of the XVI century, the first psychological studies about this issue were published in the 1960s with the seminal works of McClelland (1965), Rotter (1966), and Atkinson (1966). These authors focused their efforts on trying to explain how individual and social motivation is one of the most important psychological factors

to explain entrepreneurship, and also discover that imagination, power distance and willingness for taking risks are key factors for success. Moreover, when the possibility of achievement gets higher, entrepreneurial propensity rate increases (Kalkan & Kaygusuz, 2012).

In order to entrepreneurs to have success, they must identify business opportunities (Stevenson & Jarillo, 1990; Barringer & Ireland, 2006; Timmons, 1999; Mariotti & Glackin, 2010), be able of choosing and managing entrepreneurial careers (Haynie & Shepherd, 2011), and be capable of acting entrepreneurially (McMullen & Shepherd, 2006; Shepherd & Patzelt, 2011) by being adapted to business circumstances given their capacity of resilience to failure.

The mentality of entrepreneurs differs, as they are driven by *entrepreneurial alertness* (Kirzner, 1979) defined as a distinctive set of perceptual and cognitive processing skills directed to opportunity recognition processes. As a result, and given this entrepreneurial alertness, only the most risk-lovers tend to be successful while managing their businesses, as «the entrepreneur always searches for change, responds to it, and exploits it as an opportunity» (Drucker, 1985, p. 25).

Entrepreneurship is the act of innovation involving endowing existing resources with new wealth-producing capacity (Drucker, 1985), as the nature of the decision making context with entrepreneurs' decisions (Alvarez & Barney, 2005). As a result, «the entrepreneur is someone who is specialized in taking responsibility for and making judgmental decisions that affect the location, form, and the use of goods, resources or institutions» (Hébert & Link, 1989, p. 213).

Entrepreneurs are the business core of a company, especially in newly-born firms. Given the above definitions, entrepreneurship can be defined as the type of business strategy focused on the creation of jobs, social wealth, and profit by optimizing the use of productive and commercial resources.

Moreover, Ahmad and Seymour (2008) affirm that entrepreneurship is the phenomenon

associated with entrepreneurial activity, that is, «the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets» (p. 9). In this sense, Lumpkin and Dess (1996) affirm that the essential act of entrepreneurship by launching new ventures, either by start-up firms or through internal corporate venturing, and is accomplished by entering into new or established markets with new or existing goods and services. Entrepreneurial activities theoretically guided by some theories of entrepreneurship that will be analyzed in the next section.

## THEORIES OF ENTREPRENEURSHIP

### The Neoclassical School

The combination of psychological and managerial characteristics in entrepreneurs is fundamental to understand their behavior. In this sense, Hébert and Link (1989), cited by Audretsch (2003), have identified three distinct intellectual traditions in the development of the entrepreneurship contemporary literature: [1] the German Tradition, based on von Thünen (2015[1875]) and Schumpeter (1997[1911]), that has the greatest impact on the contemporary entrepreneurship literature; [2] the Chicago Tradition, rooted on Knight (1921) and Schultz (1980), and [3] the Austrian Tradition, based on von Mises (1949), Kirzner (1979), and Shackle (1968). We can add an emerging intellectual traditions formed by Latin American and Spanish researchers, given the socioeconomic peculiarities of these countries that have been barely studied so far in the economic literature on this issue.

In his classic treatise, *Theorie der wirtschaftlichen Entwicklung. Eine Untersuchung über Unternehmervergewinn, Kapital, Kredit, Zins und den Konjunkturzyklus* [Theory of Economic Development. A Study of Entrepreneurial Profit, Capital, Credit, Interest Rate, and the Business

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