The entrepreneur and innovation

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The concept of entrepreneur is a very important one in economics.

We will explore what economic theory has to say about the contribution of the entrepreneur to innovation.

We will focus here only on the intersection between innovation and entrepreneurship.

https://www.youtube.com/watch?v=rRpMrAMesbA

Six different perspectives differences between entrepreneurs and other economic actors.

Earl and Wakeley identify six different perspectives on what entrepreneurs do that distinguishes them from other economic actors.

1. **Mainstream Neoclassical Economics**: Neoclassical economics does not have an especially compelling theory of the entrepreneur. The entrepreneur is just another factor of production (like labour). The contribution of the entrepreneur to the business is nothing unique. Many heterodox economists consider that this approach does not do justice to the entrepreneur.
2. **Leibenstein**: the entrepreneur's role is to enhance the performance of inefficient firms, by reducing x-inefficiency.
3. **Austrian Economics (Hayek, Kirzner)**: the entrepreneur is a force for equilibrium. The entrepreneur sees profit opportunities when a market is out of equilibrium. For example, where there is excess demand, the entrepreneur can make a profit by supplying that excess demand. In doing so, the entrepreneur brings the market back towards equilibrium.
4. **Schumpeter**: the entrepreneur is an innovator. Indeed, any business activity that does not count as innovation would not count as entrepreneurship from Schumpeter's perspective.
5. **Casson**: the entrepreneur as a specialist in coordination.
6. **Shackle/Earl**: sees the entrepreneur as an experimenter who relishes in making unexplored connections.

SCHUMPETER: THE ENTREPRENEUR AS INNOVATOR

- For Schumpeter the entrepreneur is more or less equivalent to the innovator.
- This stands in interesting contrast to the Austrian perspectives of Hayek and Kirzner (1979).
- Whereas the Austrian economists saw the entrepreneur as a force that brought about equilibrium, Schumpeter saw the entrepreneur having the precise opposite effect.

SCHUMPETER: THE ENTREPRENEUR AS INNOVATOR

The entrepreneur is a destroyer of equilibrium situations, he thinks up ways of putting scarce resources to new uses:

- by introducing new goods or a new quality of goods,
- by introducing new ways of producing goods,
- by opening up new markets,
- by discovering new sources of supply of raw materials or partly manufactured goods,
- by reorganising the structure of an industry (e.g. by creating a monopoly or breaking up a monopoly situation).

SCHUMPETER: THE ENTREPRENEUR AS INNOVATOR

- While Schumpeter’s perspective is a powerful one, it has some slightly anomalous features.
- It recall our definition of innovation.
- This was indeed Schumpeter’s definition: **innovation is the first commercial application of what up to that point has remained non-commercialised knowledge.**

SCHUMPETER: THE ENTREPRENEUR AS INNOVATOR

- From Schumpeter's perspective, as the entrepreneur is an innovator, then the entrepreneur must also be the **first person** to innovate.
- From that perspective, the **second person** into the market cannot be an entrepreneur: the second and subsequent entrants are simply imitators.
  - This seems to deny some important activity that would count as entrepreneurship from other perspectives.

SCHUMPETER: THE ENTREPRENEUR AS INNOVATOR

Schumpeter:

the activity of running and managing the business after innovation is not entrepreneurship either: it is the more routine job of business administration.

Again that seems to deny some important activity that would count as entrepreneurship from other perspectives.

SCHUMPETER: THE ENTREPRENEUR AS INNOVATOR

Finally, Schumpeter draws a clear distinction between entrepreneurs and capitalists:

- capitalists provide finance but entrepreneurs do not bear the financial risks associated with their innovations.

Most economists would agree, that Schumpeter's description of the entrepreneur is too limited.

Nonetheless, for those interested in innovation, it is the ultimate innovation-centred description of the entrepreneur.

- in Schumpeter's view, if a business activity is not innovation, then it is not entrepreneurship either.

SHACKLE: THE ENTREPRENEUR AS A CONSTRUCTOR OF CONNECTIONS

- Earl (2003) calls this the ‘Shackle’ perspective on the entrepreneur, but Earl himself should take some of the credit for developing this view of the entrepreneur.
- This perspective starts from the assumption that **most new ideas are based upon a limited set of elements: these elements are combined in new ways to create new ideas.**
- That assumption is similar to Koestler’s (1964) concept of creative thinking as bisociation.

SHACKLE: THE ENTREPRENEUR AS A CONSTRUCTOR OF CONNECTIONS

- In the Shackle/Earl theory, what eventually turns out to be a profit opportunity is initially conceived as a possibility in the mind of the entrepreneur.
- Profit opportunities are not things that lie around waiting to be found --> **the entrepreneur has to construct them actively**.
- Entrepreneurs ‘imagine what is deemed to be possible’ and this imagination involves the entrepreneur in recognising interesting connections between, until that time, unconnected elements.

SHACKLE: THE ENTREPRENEUR AS A CONSTRUCTOR OF CONNECTIONS

Shackle and Earl consider that entrepreneurs have certain characteristics and qualities which make them different from the rest of us:

- they have an attitude and a disposition towards **mental experiments and to making new combinations;**
- they are **willing to take risks**, because they are not deterred by hazards that would deter the rest of us from undertaking such experiments;
- they have a good understanding of how their potential customers make mental connections, and that means they have a **clear picture of potential markets**.

This is the idea that great business strategies are born in the minds of great business leaders when they manage to hold in their minds two contradictory theories and, instead of rejecting one and keeping the other, find a resolution between the apparently contradictory theories.

SHACKLE: THE ENTREPRENEUR AS A CONSTRUCTOR OF CONNECTIONS

- Finally, the Shackle/Earl theory is broader in scope than the Schumpeter view.
- The Shackle/Earl entrepreneur may engage in all kinds of exploratory activity that would not count as innovation, and therefore could not be entrepreneurship in Schumpeter's sense.