

# Entrepreneurship: Concept and Theoretical Framework

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## INTRODUCTION

As entrepreneurship is an engine of innovation and job creation (Thornton & Yang, 2012), nations with high rates of entrepreneurial activity are those that are more developed economically, so that entrepreneurship is one of the essential elements to achieve sustainable economic growth and the generation of wealth and well-being. Entrepreneurs discover and exploit new business opportunities guided by intuition (Saiz-Alvarez, Coduras, & Cuervo-Arango, 2013), field studies, entrepreneurial spirit, and risk control to achieve GDP (Gross Domestic Product) growth, higher socioeconomic wealth (Saiz-Alvarez, Coduras, & Cuervo-Arango, 2014), and social change.

Contrary to Van Praag and Van Ophem (1995) and Murphy (1986), who affirm that entrepreneurship was first studied in Cantillon's *Essai sur la nature du commerce en général*, published posthumously 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 the creation of new business and the importance of exchange trade to economic growth, 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 (Saiz-Alvarez & García-Vaquero, 2017).

Given the impact of entrepreneurship in a firm, «contemporary economic theory recognizes entrepreneurship as an independent factor of production on a more-or-less equal footing with land, labor, and capital» (Hébert & Link, 1989, p. 40). The objective of this chapter is to describe the different theories entrepreneurship briefly, by including classical and new theories of entrepreneurship, both from economic, sociological, ecological, and psychological perspectives.

## BACKGROUND

### Entrepreneurship: Concept

Entrepreneurship is the process of identifying and developing economic, business and social opportunities (Shane & Venkatraman, 2000) through the efforts of individuals and organizations (Thornton & Yang, 2012), and it can be analyzed generating a multidimensional perspective (Bula, 2012). Entrepreneurship is the act of innovation involving endowing existing resources with new wealth-producing capacity

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(Drucker, 1985), as the nature of the decision-making context with entrepreneurs' decisions (Alvarez & Barney, 2005). As a result, and applying a fundamentally personal perspective (Baum et al, 2007), «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).

Successful entrepreneurs must identify business opportunities (Stevenson & Jarillo, 1990; Barringer & Ireland, 2006; Timmons, 1999; Mariotti & Glackin, 2010) to create wealth, 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 the market given their expertise (Velilla, Molina, & Ortega, 2018) and their capacity of resilience to failure. As a result, entrepreneurs are the business core of a company, especially in newly-born firms, where they act as inventors, investors, accountants, facilitators, organizational change specialists, leaders, technologists, and marketing specialists (Frese & Gielnik, 2014). Given the above definitions, entrepreneurship is 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 for economic growth (Saiz-Alvarez & García-Vaquero, 2017).

Entrepreneurship is associated with the «pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets» (Ahmad & Seymour, 2008, p. 9). In this sense, Lumpkin and Dess (1996) assure that the essential act of entrepreneurship is launching startups and corporate venturing accomplished by entering into new or mature markets with new or existing goods and services. Entrepreneurial activities guided by some theories of entrepreneurship that will be analyzed in the next section.

## ECONOMIC-BASED THEORIES OF ENTREPRENEURSHIP

### The Neoclassical School

The combination of psychological and managerial traits in entrepreneurs is fundamental to understand entrepreneurial behavior. In this sense, entrepreneurial individualism in competitive markets and the consideration for market participants' knowledge determine entrepreneurship (Egger, 2008). 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 (1875) and Schumpeter (1911), that has the most significant 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 emerging intellectual traditions formed by Latin American, Spanish and Portuguese researchers (the Iberoamerican Tradition), 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 Unternehmergewinn, Kapital, Kredit, Zins und den Konjunkturzyklus* [Theory of Economic Development. A Study of Entrepreneurial Profit, Capital, Credit, Interest Rate, and the Business Cycle], Schumpeter (1911) proposes a theory of creative destruction, where new firms equipped with the entrepreneurial spirit displace less innovative incumbents, leading to economic growth, as a «function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention, or more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way»

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