

J. A. SCHUMPETER'S VIEW OF THE ENTREPRENEUR

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Abstract

According to J. A. Schumpeter, there are three key elements of the theory of economic development. It has the character of an evolutionary process in which the equilibrium is unknown and whose time is historical, the object of change is innovation, and the initiator is the entrepreneur. Broadly conceived innovation plays a crucial role in every creative act in the economy. Schumpeter's approach to the functioning of the market economy works with the constant disruption of the static equilibrium through qualitative changes - innovations that restore it to a higher level. Schumpeter explains the market economy's cyclical evolution by the endogenous innovation generation from entrepreneurial activity. Economic development, according to Schumpeter, inherently requires an entrepreneurial spirit; the realization of innovation is an act of entrepreneurship, and the result is entrepreneurial profit. Every step of the entrepreneur must be judged through the prism of processes of "creative destruction". Schumpeter regarded entrepreneurship as a deviation from routine management practice, and many difficulties accompany this deviation. Schumpeter's understanding of the entrepreneur in the context of a dynamic innovation approach remains inspirational for 21st century economic and economic thinking.

Key words: entrepreneurship, economic development, innovation

JEL Code: L26, O1, O30

Introduction

Despite the impossibility of incorporating Schumpeter into the mainstream (but more precisely because of this), his original work is more attractive than ever in today's turning point. But the completion of attempts to renaissance Schumpeter's legacy in the era of (post)globalization remains an open challenge. The paper reminds Schumpeter's concept of the entrepreneur in the context of a dynamic innovation approach, which brings many inspirations also in terms of reflections on the economy and economics of the 21st century. The article is an original scholarly review that uses data from secondary literature sources and the available research

results on the topic. To achieve this goal, the authors used the methods of description, comparison, qualitative analysis, induction, and deduction.

1 The lonely "enfant terrible"

The Moravian-born Austrian J. A. Schumpeter was an unusual and original personality, with a rich academic career in Europe and later in the USA and a stint as an Austrian finance minister, banker, and speculator. Throughout his life, he stayed a Central European (Bažantová, 2014). Nevertheless, he remained, and remains, isolated. Several factors contributed to this. Starting with theoretical-methodological assumptions, or the incompatibility of his work with neoclassicism, through the unpopular anticipation of the demise of capitalism. At the same time, we must consider the more problematic applicability to economic policy, the undeveloped demand side, and the unfortunate timing of the key books. The individuality and originality of Schumpeter, who rejected the existence of "his" school and loyal followers, also played a role (Sirůček, 2015).

In the Austrian spirit, even Schumpeter does not prioritize the research of competitive static equilibrium but links the functioning of the economy with dynamic processes. He attempts to analyze cyclical fluctuations in real historical time. Neither does he idealize perfect competition and seeks a dynamic non-mathematical analysis that has insight into the nature of economic phenomena. He also applies the principle of methodological individualism, whereby the activity of individual entrepreneur-innovators forms the basis of the system's behavior. However, it involves the principle in a less sharp form and accepts strong collectivist-social influences on individual behavior.

Schumpeter is also closely related to the marginal utility theory or the application of the marginal method generally. He also emphasizes the individual's behavior - here, the entrepreneur-innovator, his innovative psychology, including non-hedonistic motives for entrepreneurship, goes beyond the rationality of the traditional neoclassical homo oeconomicus. In this aspect, too, he differs from the Austrians, for example, in not finding such a close connection between economics and psychology. In his theory, the psychological motives for economic behavior are modified by the parameters of the economic environment. Thus, according to Schumpeter, economic behavior is not just determined by unchanging individual psychology. Schumpeter rejects the affinity of economics and psychology and promotes the use of mathematics and econometrics (although he does not use them much himself). He does not build on monetary cycle theory nor share an aversion to general equilibrium. Above all,

however, he is not as critical of socialism as the Austrians and Neo-Austrians. The culmination of his work is a vision of the necessary demise of capitalism and its replacement by socialism. Although an admirer of competitive capitalism, he expresses the above with regret. Last but not least, his political orientation is more conservative and less liberal.

Schumpeter was not only an economist and historian of economic doctrines but also a political scientist, sociologist, and lawyer. He took a broad approach to economics, bringing together economic theory, economic history, the history of economic doctrines, empirical analysis, sociology, social psychology, and law. His extensive interdisciplinary work, going beyond pure economics, consists of three main areas: a critical discussion of the history and state of economic theory at the time, a theory of social and institutional change, and a theory of economic development. The third circle is considered the center of gravity, where the work plays a crucial role (Schumpeter, 1912) - most of the key ideas are expressed here. Later they are only modified and clarified (Schumpeter, 1942). A trilogy of seminal works can characterize his entire theoretical-methodological system. Key (Schumpeter, 1912), elaborated in (Schumpeter, 1939), with a focus on cyclical developments caused by uneven distributions (clusters) of innovations, including a typology of cycles by length (Kitchin, Juglar, and Kondratieff), with an emphasis on long K-waves (Sirůček, 1999). The system logically culminates in the work (Schumpeter, 1942), which belongs to the second area of research and is one of Schumpeter's most famous works ever.

2 Schumpeter's dynamic system based on innovation

The initial treatise (Schumpeter, 1912) attempts an abstract, dynamic development theory. Schumpeter starts from a dual conception of economics, the distinction between statics and dynamics. The main pillars of the concept are the evolutionary character and the principle of technical-technological determinism in the field of productive forces and innovation generated by the entrepreneur. The evolutionary processes whose driving forces are inherent in the system are emphasized. There are three critical elements of the theory of economic development: it has the character of an evolutionary process in which the equilibrium is unknown and whose time is historical, the object of change is innovation, and the initiator is the entrepreneur. The key role is played by innovation, broadly conceived in the sense of any creative act in the economy.

Schumpeter's approach to the functioning of the market economy works with the constant breaking of the static equilibrium through qualitative changes - innovations, the mechanism of which restores it at a higher level. The dynamic "*evolving*" capitalist economy

as a whole does not converge to a stable Walrasian equilibrium (as in the "*stationary*" model). However, it evolves through constant disruptions of equilibrium in the form of internally generated innovations and institutional transformations. Spontaneous and discontinuous changes that disrupt equilibrium are associated with innovation.¹ The basis of cyclical development lies in the uneven distribution of spontaneously occurring innovations, which tend to cluster in specific periods and sectors, even if the inventions are subject to random distribution. Through chain reactions, the cumulative realization of innovations triggers the boom phase. Depression represents an adaptation to change during a boom.

Endogenously generated innovations - an internal driver of the system dynamics - are linked to the activities of the private entrepreneur-innovator, as a central figure who realizes economic development through creative activity. From the point of view of entrepreneurial activity, through the prism of innovation, all critical economic categories are viewed dynamically: entrepreneurial profit, monopoly, credit, and interest, the function of banks, competition (as creative destruction), inflation, etc. Profit (as well as credit and interest) are transitory phenomena characterizing economic dynamics. Innovation is associated with new uses of the resources of the economic system.² The modern theory of innovation (Clemence, 1991) builds on the definition of innovation or the distinction between innovation (as an application) and invention. It is developed, for example, by F. Valenta's classification of innovation orders (Sirůček, 2005) or the managerial view of entrepreneurship and innovation in the works of P. F. Drucker.

Regarding the drivers of innovation, Schumpeter's concept includes supply-driven, seen as an endogenous part of economic growth. Schumpeter considers the spontaneity of needs to be relatively low. Innovation does not usually occur so that new needs arise first, and then only the productive apparatus would adapt to this pressure. Entrepreneurial profit in the genuine sense is generated only by the entrepreneur-innovator. At the same time, the entrepreneur-imitators receive the analog of normal profit and the part of the entrepreneurial profit that reaches them in the dispersion of innovation. The position of demand-driven innovation is taken, for example, by J. Schmookler (Sirůček, 2015).

3 The definitions, functions, and typologies of entrepreneurs

¹They are realized asymmetrically. Innovation is unevenly distributed over time and across sectors, creating fluctuating upward and downward movements. They occur discontinuously in clusters.

² In (Schumpeter, 1912), innovation - here still as "new combinations of factors of production" - is defined as: 1. the production of a new good, 2. the introduction of a new production method, 3. the opening of a new market, 4. the acquisition of a new source of raw materials or semi-finished goods, 5. the realization of a new organization.

Klusoň (1994) recalls the different understanding of the entrepreneur and entrepreneurship in economic theories and economic practice. The Anglo-Saxon tradition often associates entrepreneurship with new and small firms. A distinction is usually made between a manager (a person who only manages) and a boss (manages and owns), both of which can be entrepreneurs. Germans associate the term entrepreneur with ownership and power - an entrepreneur is a person who owns and manages. In our conditions in the pre-war period, the term entrepreneur was used mainly in the construction industry. Owners of small craft businesses were often referred to as tradesmen, and others were merchants or factory owners. Since the 1990s, there has been widespread use of the term entrepreneur, but sometimes with a pejorative flavor. An entrepreneur often refers to a person who owns and manages a small or medium-sized business. The roots of the term entrepreneur go back to ancient and medieval times when it was used to refer to people making products. In the early 18th century, entrepreneurs were suppliers. Primarily, they were people who had contracts with the government. Usually, governments paid for the contracts; therefore, these were less risky occupations. Entrepreneurs are redefined in economic theory by R. Cantillon. He considers these to be risk takers rather than those who receive a regular salary. In dealing with uncertainties in the market, Cantillon's concept precedes the considerations of the entrepreneur by F.H. Knight and the Austrian economists.³

The entrepreneur and the meaning of entrepreneurship are variously touched upon by A. Smith, J. B. Say, J. S. Mill, and K. H. Marx. W. Sombart considers entrepreneurs to be the inventors of new production methods and organizational forms, the discoverers of sales opportunities, and the conquerors of markets. Entrepreneurship has also been discussed by W. J. Baumol, I. M. Kirzner, H. Leibenstein and T. W. Schultz (Čapek, 1990). Schumpeter makes a strict distinction between stationary "growth" versus dynamic "development" or "evolution". His ideal is not a perfectly competitive neoclassical static equilibrium but a dynamic market with an economic cycle. Economic development is in dire need of an entrepreneurial spirit. Schumpeter calls the introduction of innovations into the economic system an act of entrepreneurship; the entrepreneur is the bearer of innovation (the initiator of development - the subject of change). *"Entrepreneurship is the promotion of new combinations, their implementation in enterprises, etc. We call entrepreneurs the economic subjects whose function*

³ For Cantillon, the entrepreneur does not act as a destructive force in the spirit of Schumpeter, but his function is to bring the market closer to equilibrium. By successfully anticipating and investing resources in the future, he helps to adjust and equalize supply and demand in different markets in the spirit of L. E. Mises (Říkovský, 2004).

is to promote new combinations and who are the active element in this" (Schumpeter, 1912, pp. 207-208).

Schumpeter connects the transition from a static cycle to dynamics with the formation of capitalism. He defines the capitalist system as a system based on the dynamics created by individual entrepreneurs. As a creator of innovations, the entrepreneur is the result of a specific historical development. He can only apply himself at a particular stage of socio-economic development, which has brought about the value and institutional changes that enable this behavior. In Europe, this was to occur during the 18th century, and the final breakthrough came with the Industrial Revolution in the early 19th century.

Schumpeter considered the originality of his theory to be the distinction between the entrepreneur and the capitalist. The function of the capitalist is to finance innovation. At the same time, he associated the entrepreneur with the function of implementing innovation, which is only held for the duration of the innovation project. The entrepreneur does not have to be the owner. More often than not, it is the employees, especially the managers. However, not those engaged in routine management activities. Although Schumpeter does not underestimate the incentive importance of profit, in his theory, it is the outcome of entrepreneurial activity and not its primary motive. The motivation for entrepreneurship is deeper, stemming from psychological inclinations, preferences, and perceptions. In this context, the institution of property is essential for Schumpeter, only concerning whether or not it can or what obstacles it can pose to exercise the entrepreneurial function. Not as an imminent motivation (Čapek, 1990).

According to Schumpeter, the entrepreneur's function has never been tied to a specific person; the entrepreneur is always something else. Within the framework of their position, different people find themselves in situations where they perform entrepreneurial functions. In practice, Schumpeter speaks of four different types of entrepreneurs. These are the '*factory trader*' (16th-18th century), the '*captain of industry*' or chairman of the board, etc., the '*director*' (manager), and the '*founder*' (a volatile element oriented towards setting up new companies and moving quickly elsewhere). According to the innovation vehicle, Schumpeter distinguishes the stages of capitalism: "*competitive*" and "*trusted*". The transfer of the individual entrepreneurial function to collective bodies (processes of disintegration) is (Schumpeter, 1942) associated with the transition to socialism. For Schumpeter, the result of a business is represented by business profit. The resource is the realized innovation, enabling production at a lower cost compared to the combination of resources of the previous one. According to his approach to innovation, he distinguishes between the simple producer and the entrepreneur. The entrepreneur introduces new combinations that bring him entrepreneurial profits above the normal average profits

achieved by simple, innovatively passive producers and traders. Only an entrepreneur who innovates again and again, i.e., continuously, can achieve and maintain a higher level of profit in the long term. Extraordinary innovative profit is ephemeral. It disappears when up to now, new products have become widely produced and sold.

For Schumpeter, the incentive to innovate is entrepreneurial profit, which exceeds the usual level of costs, including normal profit. In (Schumpeter, 1912), normal (average) profit is incorporated into costs as a reward or risk premium borne by the producer or trader. The only actual profit is the excess of revenue over defined costs, an effect of innovation. Various cases of innovation profit in Schumpeter are studied by F. Valenta (Sirůček, 2015). Čapek (1990) compares Schumpeter's entrepreneur with the concept of Neorakushan I. M. Kirzner's theory of entrepreneurial discovery. According to Kirzner, the entrepreneur seeks gaps in the market, representing profitable opportunities. Schumpeter's emphasis on initiating entrepreneurial activity is consistent with his development concept. Kirzner's theory, in turn, corresponds to the implementation content of entrepreneurship. For Kirzner, entrepreneurship is a purely economic activity, while Schumpeter interprets entrepreneurship as a techno-psychological problem with economic implications (Grochová, 2010).

4 Entrepreneur's difficulties and motivations

Every step of the Schumpeterian entrepreneur must be judged through the prism of processes of creative destruction. As mentioned, Schumpeter narrows the term entrepreneur, in contrast to its everyday use in economic practice, to those who implement innovations - to innovators. The uniqueness of the entrepreneur lies in the promotion of something new, new ideas, and new production combinations. Schumpeter views entrepreneurship as a unique, non-reproducible activity that cannot be modeled in any meaningful way. For Schumpeter, entrepreneurship represents a departure from routine management practices that are accompanied by numerous difficulties and problems. The entrepreneur-innovator must be willing and able to push innovation even against ossified conditions.

In (Schumpeter, 1912), objective and subjective obstacles a creative entrepreneur must overcome are listed. The innovator going beyond the boundaries of addictive behavior encounters risk and uncertainty. The entrepreneur has to overcome the established habits and stereotypes of his conscious and subconscious mind. Another difficulty is the reaction of the social environment to someone who comes up with something new. There are institutional or legal barriers, and value orientations can also be problematic.

Schumpeter connects the essence of the leadership function with overcoming obstacles. In a sense, however, the Schumpeterian entrepreneur can also be interpreted as an "*anti-leader*" since it is in his interest that no one follows him and no one tries to imitate him. According to Schumpeter, entrepreneurs are capable of creativity in production, but their leadership skills are different from what is needed in politics. The individualistic entrepreneur has instincts that can be destructive in politics.⁴ In the spirit of Schumpeter's view, the lesson may be that entrepreneurs must be seen with their strengths and weaknesses. Schumpeter summarizes the motivational variables of entrepreneurial behavior into three groups. A critical motive tends to be the desire to achieve power and independence in various variations. Another group of motives is associated with the will to conquer. Entrepreneurial activity is likened to a sporting competition, whereby the financial outcome is not the end in itself. The third group of motives consists of the pleasure and satisfaction of creating and realizing something new. Achievement is valued, and one's abilities are tested. This leads to the courage to take risks and seek out difficult tasks. According to Schumpeter, the core motivations of entrepreneurs are the second and third groups. However, he does not deny the importance of monetary benefits and the corresponding financial mechanisms associated with entrepreneurship, at least in an objective measure of success and a symptom of victory. In (Schumpeter, 1942), also considers the short- and long-term effects of practices that restrict competition in terms of evolutionary processes of creative destruction. The above corresponds to Schumpeter's view of large monopolistic or oligopolistic firms, which are often at the forefront of innovation of the highest order. Not only do they have the resources, but they also have an incentive through appropriating innovation proceeds in the form of extraordinary profits. This is known as the Schumpeterian hypothesis. After all, temporary monopolies make it possible to realize profits from innovation.

Schumpeter is gradually formulating two key sources of entrepreneurship and change in the economy. In both, innovation is crucial for economic development. The two formulations are not mutually exclusive; they can work simultaneously. First, entrepreneurs with a creative spirit are a crucial source of innovation. This early theory (Schumpeter, 1912) argued that the creative spirit of entrepreneurs spurs innovation and technological change, also referred to as the so-called Mark I model. It is more applicable to less concentrated markets with many smaller firms and low barriers to entry. It focuses on the individual - the individualistic entrepreneur-innovator. Second, large, capital-intensive companies with resources for research and development are considered the primary source of innovation (the so-called Mark II model).

⁴ Entrepreneur-innovators tend to break established rules. They seek to remove anything that stands in their way, even if it undermines the rule of law.

In (Schumpeter, 1942), monopoly and oligopoly markets are operated with high barriers to entry and realizable economies of scale. This entrepreneurship model focuses more on the function of entrepreneurship than the individual. It is compatible with a broader range of innovations.

Conclusion

Schumpeter's wide-ranging work may be of interest in the chaotic era of (post) globalization concerning the institution of business and entrepreneurs but more broadly with innovation as a critical category of competitiveness. What remains inspiring is the interdisciplinary approach, the methodological tolerance (the use of different methods or the blending of different theoretical-methodological approaches), or the consistent linking of the economic and the social. The innovation concept of long K-waves (Sirůček, 2015) is waiting for an update; the linking of Schumpeter's supply-side theory with demand-side analysis, including demand-oriented innovations, is open. The unanswered question remains whether the vision of a non-violent self-liquidation of capitalism is being fulfilled, including the transformation (or loss) of the entrepreneurial spirit and the romanticism of entrepreneurship in the 20th and 21st centuries. Above all, however, one can critically discuss the continued persistence of the destructive-constructive capacity of the (post)capitalist system, in which destruction combined with suicidal tendencies are becoming more prevalent. However, a non-violent transformation into socialism, and a real advance, is not at issue.

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