SCHUMPETERIAN ENTREPRENEURSHIP THEORY: EVOLUTION AND RELEVANCE

Tariq Mehmood, Skyline University College
Haitham M. Alzoubi, Skyline University College
Muhammad Alshurideh, University of Sharjah & The University of Jordan
Anwar Al-Gasaymeh, Applied Science Private University
Gouher Ahmed, Skyline University College

ABSTRACT

This article sheds light on the Schumpeterian entrepreneurship in the historical and contemporary context, J.A. Schumpeter (1883-1950) propounded a theory of entrepreneurship which was at quite variance with the then commonly accepted Marshallian entrepreneurship theory of entrepreneurship as establishment and successful or profitable organization of business organizations. As against this, Schumpeter’s entrepreneurship theory associates entrepreneurship not only with organizations of businesses, but also with Innovations or continuous business development. Schumpeter costs and entrepreneurship as the central factor of economic development. The result is not a doom of capitalism foreseen by least Marx, but a progressive free-enterprise system. Thus, it is the human factor which emerges as the dominant factor in business and economic development. The theory is of contemporary relevance, as evident from the current entrepreneurship and micro enterprises to combat multiple socio-economic problems.

Keywords: Joseph A. Schumpeter, Entrepreneur, Entrepreneurship, Innovation, Theory of Economic Development, Economic Development, United Arab Emirates.

INTRODUCTION

Entrepreneurship is very much in the air today, with the present times seeming to be an age of entrepreneurship (Becker et al., 2012) with somehow the idea of entrepreneurship appearing to fire the imagination of everyone, especially the youth with a good education. The origin of entrepreneurship is traced to very ancient times of the Egyptian pyramids (Hirsch et al., 2016).

Entrepreneurship stands for ‘achievement’ achieving something new and tangible. It is production of wealth-goods and services and promotion of social welfare. Nowadays, it implies more, such as the environmental protection and ethical and value based businesses. It is being at the edge of something new and novel, and advancing the modern civilization to new heights, from necessaries to comforts to luxuries to super-luxuries and beyond as establishing space colonies (Ahmed, 2016a). In a survey held regarding the entrepreneurial aspirations of the youth in the United Arab Emirates (UAE), entrepreneurship was found to have the allurement of independence, empowerment and power, social usefulness and employment and wealth creation for the self and the society (Ahmed, 2015; Amponsah & Ahmed, 2017a).

One can also run one’s enterprise on model lines, making entrepreneurship a many-in-one thing. There seems to be an ongoing Entrepreneurial Revolution through start-ups, mini and
micro-enterprises and Nano technologies and products. It is a means for economic development and poverty alleviation. It is a vehicle for self and wage employment, and a 24/7/365 occupation, and a means of business empire building of which, for example, Amazon and Ali Baba seem good example. There are almost every day instances of people given up well paid and well settled careers and opting for uncertain entrepreneurial careers, turning into entrepreneurs and taking up entrepreneurship.

“The word entrepreneur is French and literally translated, means ‘between-taker’ or go-between” (Hisrich et al., 2019). More appropriately, an entrepreneur, whose business is entrepreneurship is a “go-getter”, the person who moves the business world forward and making it more productive, cost efficient, economical and abundant. Entrepreneurship is dynamic risk-taking, creative growth-oriented behavior. And “An entrepreneur is willing to pursue opportunities in situations others view as problems or threats” (Schermerhorn Jr, 2008).

In the history of entrepreneurship, a very important name is Joseph Alois Schumpeter (1883-1950), who at the beginning of the 20th century had propounded a profound theory or model of entrepreneurship, which is regarded as a breakthrough in entrepreneurship theory (Boyle, 2017). Even after more than a century of its formulation, Schumpeter’s theory/model of entrepreneurship holds great interest, as the forerunner of subsequent entrepreneurship model with their emphasis on entrepreneurship as varied business activity—planning, organization of financing, production etc. And, above all, taking responsibility of business success and failure.

Schumpeter’s entrepreneurship model is credited to be a dynamic one, which is associated with Innovations of new products and processes. Hence, this paper is an attempt at bringing out the background and essence of Schumpeter’s pioneering entrepreneurship model, and its enduring importance and relevance, and also the policy implication of the Schumpeterian entrepreneurship model. After more than a century of its existence, the model is need of an evaluation, stock-taking, to see whether the model is of contemporary importance.

LITERATURE REVIEW

Objectives and Methodology (O & M):

The objectives of the study are (i) to understand the background of Schumpeterian entrepreneurship model (ii) to pinpoint the essence of the Schumpeterian entrepreneurship model (iii) to evaluate the Schumpeterian entrepreneurship model in the context of the contemporary business environment, and (iv) to draw policy lessons from the model. Methodologically, the study takes a historical and contemporary view of the Schumpeterian entrepreneurship theory, which is at the Centre of his classic and more than 100 years. Theory of Economic Development, interest in which appears to be abiding (Becker & Knudsen, 2002).

In a dynamic economic setting, interest in economic development is never failing. How does the Schumpeterian help economic development? What is the essence of entrepreneurship, according to Schumpeter?

Economic development is known to be a function of land, labor, capital and organization or entrepreneurship, as the factors of production of goods and services, the total of which makes up GDP—Gross Domestic Product. Among the factors of production, the entrepreneurship factor, according to Schumpeter, has a seeming ‘midas-touch’ the entrepreneurship factor is the most active and dynamic one, which has an ‘innovative’ trait—which no other factor of production has.
Rationale

The Rationale for understanding this modest but in a small way significant study is to drive Innovations is at the heart of economic development of the underdeveloped and developing nations, which are still many. Thus, the need is to take a historical and contemporary view of the entrepreneurship problem, and see whether Schumpeter’s entrepreneurship theory gives a correct understanding of entrepreneurship and its rising importance.

Layout

The study is organized on the following lines hence after, Introduction, Objectives and Methodology, Economic Development, Smiths-Ricardo-Malthus and Marxism economic development, Schumpeter Theory of Economic Development, Schumpeter Entrepreneurship Theory, Relevance of Schumpeter Entrepreneurship Theory, Policy Implications, Conclusion.

Entrepreneurship is the core of Schumpeter’s theory of Economic Development, as the dynamic factor of economic development. It is also the means of efficient use of resources or factors of production and production improvements.

ECONOMIC DEVELOPMENT

Economic development or growth is for-ever increase in national and per-capita income which are the sources of consumption and human welfare (Kindelberger, 1977). The imperatives of economic development are as population growth, poverty unemployment, and economic inequalities. Economic development is human transfer for nation from a state of low consumption to high consumption, and from poverty to plenty. According to Rostow (1962) the end of economic development is mass consumption, which is production and consumption of goods in abundance which was the stage reached by the American economy alone at the time of the publication of Rostow’s seminal work on economics. Hence, United States of America holds a great allurement for many from all over the world, especially for the people of underdeveloped and developing countries for whom the USA is a dream land to enter into (Ahmed, 2018).

There is, in-fact a race for economic development among different nations, India, for example, with a 21.9 per cent of poverty, 1.353 billion population in 2018, and is intent on building a $5 trillion economy by 2024, from the present $3 trillion one. The young United Arab Emirates (UAE) since its formation in 1971, from a smalltime economy of $2 billion has developed an economy worth $414 billion for a population of 9.63 million in year 2018 (The World bank, 2019). It is propelling towards $1 trillion economy. The UAE is an entrepreneurial state, as the owner of a number of enterprises.

There are many theories of economic development, both prior to after Schumpeter (Adelman, 1966).

PRE-SCHUMPEHER ECONOMIC DEVELOPMENT THEORIES

These are the Smith, Ricardo, Malthus and Marx who have been hailed as worldly philosophers (Heilbroner, 1986) of these, Adam Smith (1723-90) regarded as the father of economics of the age of development commencing with the Industrial Revolution (1760-1830) in England. Smith’s classic development text is the Wealth of Nations (1776), which echoes Laissez-faire or free market principles of development (Smith, 1776). His development enabler is
the famous ‘Invisible hand’, in the form of price-mechanism which takes care of the production of goods and services and economic development over time on its own without any external and or and interference. The key to development is ‘division of labor specialization’ Smith Laissez faire theory of economic development, which exposes free enterprises and free trade, has still wide acceptance under the WTO (1995) economic and trade regime (Paul, 2018).

Smith’s is a very optimistic theory of economic and business development based on the five pillars of division of labor, specialization, free enterprise, free trade and a convenient tax system, and a supportive state/government. An interesting question that arises is whether the market of free enterprise has any solution to poverty yes, according to Prahalad (2010), as event MNCs can profitably produce goods and services for the purpose of the poor, who together have a sizable purchasing power.

However, the economic development was not felt to be so flawless and smooth sailing as theorized by Smith by David Ricardo (1772-1883), and Thomas Robert Malthus (1766-1834), whose felt road blocks to Smith’s smooth way of growth of wealth and welfare were scarce land and over-population respectively, that keep economic condition of people at the bare substance level (Ricardo, 1817; Malthus, 1769). To this, Marx (1861) added the prospect of the collapse of capitalism through a proletariat uprising or Revolution, which in fact happened in Russia in 1917, into this depressing scenario of the crisis of capitalism enters J.A. Schumpeter’s, ushering in what may be called the Entrepreneurial Age of Economic Development or New Age of Economic Development (Gierseh, 1984).

**SCHUMPETER'S THEORY OF ECONOMIC DEVELOPMENT**

It is interesting to note that, Joseph Alois Schumpeter (1883-1950) was born in the year of death of Karl Marx (1818-83) in Austria, then an Empire under the Hapsburgus, and had educational and work experience in Austria, Germany, and United States of America. In the USA, he was at Harvard University from 1935-1950. At Harvard, he had students like Paul Samuelson and Jan Tinbergen who later on became Nobel Laurates in Economics in the year 1969 & 1970.

His first and major work was on Theory of Economic Development (TED) published in 1912, the revised version (1926) of which was translated into English in 1934 (Schumpeter, 1934; Schumpeter, 1912). Theory of Economic Development is an anti-thesis Marx’s Das Kapital. For, capitalism never collapses, but develops from strength to strength propelled by innovative entrepreneurs, who through their stream of innovations take the economy ever forward, with the such thing as a doomsday or proletarian revolutions. In-fact, in his almost last major work (Schumpeter-1942) had predicted that ‘Capitalism would evolve gradually into socialism’ (Penguin, 1983). And, not proletariat dictatorship, but Democracy would be the future, lot of capitalism. This prediction has been noted to have been proved long back in the case of the USA (Brandes, 1976).

Schumpeter was a great admirer of capitalism and made sure of its possibilities of development (Adelman, 1961). Capitalism, according to Schumpeter, is an ever revolving and progressive system, which appears to have more than proved with countries like India previously committed to some sort of statesism turning to free-market economies (Ahmed, 2017). China’s turn to marketism with GDP<$1 trillion in 1978 and its subsistence rise to be No. 2 economic power with a GDP of $13.6 trillion and a population of 1.393 billion is to well-known to be recounted here (The World bank, 2019). Today, China is too ardent exponent of free trade tussle with the USA.
“….. Schumpeter’s analysis offers penetrating analysis into the dynamics of the capitalist system. In fact, the two concepts of “Innovation” and “Entrepreneur” which he evolved have now become powerful tools to interpret the process of economic development in the earlier phases of capitalism” (Misra & Puri, 1983).

Thus, in the factors of land, labor, capital and organization or Entrepreneurship comes to occupy central place in the process of production and economic development in the Schumpeterian system. In what follows, the Schumpeterian entrepreneurship theory or model is presented and evaluated in historical and contemporary context.

**SCHUMPETER ENTREPRENEURSHIP**

In the history of entrepreneurship, Schumpeter’s entrepreneurship appears to be a turning point (Schumpeter, 1949). For, Schumpeter’s entrepreneurship is more than entrepreneurship of simply up setting businesses and running them successfully or probably which is statics or stagnant view of entrepreneurship. The source of Schumpeter’s theory is his classic text, The Theory of Economic Development that heralded a new era of economic development through entrepreneurship. According to this, the free enterprise system is quite enterprising and dynamic, forever scaling higher and higher heights of business through new products and services (Ghannajeh et al., 2015; Ahmed, 2016c). Entrepreneurship is the engine of growth, and represents a stream of Innovations.

“Schumpeter emphasized the role of the innovator-be-, the innovator, the developer, the promoter, the person who initiatives and recognizes technical improvements and who succeeds in getting them introduced” (Samuelson, 1980). The inventor in business terms is the entrepreneur whose function is entrepreneurship, which is the spring of all business innovations and improvements, and the main source economic development (Samuelson, 1980). Thus, the sequence of economic development is entrepreneur entrepreneurship innovations business and economic development. Innovate or perish is ‘Schumpeter’s ideology. The reward for entrepreneurship is profit.

In the entrepreneurs, “…there is the will to conquer the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself... or simply of exercising one’s energy or ingenuity” (Schumpeter 1969). Further, it is noted, “Because being an entrepreneur is not a profession and as a result not a lasting condition, entrepreneurs do not form a social class in the technical sense, as, for example, land owners or capitalists or workman do. Of course, the entrepreneurial function will lead to certain class positions for the successful entrepreneur and his family” (Schumpeter 1969). For, “like the Marxian capitalist, who accumulates for the sake of accumulation, the Schumpeterian innovator, innovates, at least in part, for the sake of innovating” (Adelman, 1961).

The soul of Schumpeterian entrepreneurship is innovation (s), which is “The introduction of something new—a new idea, method or device”. Innovation is the key to the economic development of any company, region of the country, or country itself. As technologies change, old products decrease in scales and old industries dwindle. Inventions and innovators are the building blocks of the future of any economic unit. Thomas Edison reportedly said that innovative genius is “1 per cent inspiration and 99 per cent perspiration” (Hisrich et al., 2019). Innovation keep enterprises flouting and advancing (Peters, 1997).

The companies must be on forever look out for new business opportunities of new factors, processes, products are (Drucker, 1999). The rewards for entrepreneurial efforts of organization and innovation is profit and public acclaim. But, the Schumpeterian entrepreneur is
not simply an Economic, Management or Home Entrepreneurs (O’Boyle, 2017). That is, entrepreneurs are not just moved by profit motive as there are higher and non-peculiar values behind entrepreneurial accomplishments and innovations. There may be higher values of accomplishment, social welfare and poverty eradication or helping the poor.

**DYNAMIC AND CREDIT FINANCE**

Schumpeterian entrepreneurship which is associated with innovations, which are changes in overtime of raw materials’, machinery, labor and finances, products etc., is quite an active or dynamic concept. It stands for creativity and change.

*“Entrepreneurship is dynamic risk-taking creative, growth oriented behavior”* (Schermherhorn & Bachrach, 2020). It stands for change over time and space Entrepreneurship changes organizational picture from time-to-time (Ahmed, 2016b). Innovation is the process of taking a new idea and putting it into practice and innovations pertain to every aspect of business, namely, processes, products, organization, etc. (Schumpeter, 1934)

Entrepreneurship in Schumpeter’s system, is greatly facilitated by bank credit (Mishra & Puri, 1991; Puri & Misra, 1995), banks or commercial being the reservoirs of public deposits and Purveyors of to all productive enterprises. There are, therefore, no financial hurdles to entrepreneurship and implementation of its innovations. Significantly, according to Schumpeter, financing entrepreneurs and their enterprises and innovations is financing economic development and thereby employment and income growth that result in higher consumption and welfare (Schumpeter 1934) Schumpeter’s entrepreneurship model is extraordinary in the sense that it takes care of the wherewithal’s of entrepreneurship. It is also a win situation or case for banks that in entrepreneurs and their enterprises and entrepreneurship they have steady, productive and dynamic customers.

Schumpeterian Entrepreneurship, in sum, is an agent of economic and business change through a stream of innovations or inventions and improvements, which are multi-dimensional-technical, organizational, products, marketing, etc. (Schumpeter, 1934). As well expressed by Adelman, “…Like the Marxian Capitalist, who accumulates for the sake of accumulation, the Schumpeterian innovator innovates, at least in part, of the sake of innovating”. (Adelman, 1961). According to Schumpeter Capitalism and Democracy have eternal springs of development mainly in the form of entrepreneurs (Schumpeter’s, 1942).

The Schumpeterian theory is very much in evidence in the operation of business, small, medium and large, which is forever at business improvements to add to their revenues, profits and market valuation. As a result, some companies like Amazon, Apple, and Microsoft have crossed to $1trillion in market valuation or worth (Monica, 2019).

**CREDIT CRISIS**

It is a different thing that from the experience of the global financial crisis of 2008 banks appear to have gone astray from their basic principles of productive, secure, and profitable credit and advances to indulge in sub-prime or risky and doubtful financing (Ahmed, 2012 & 2013; Al-Jarrah et al., 2012). It is high time to re-establish a firm link between banking and entrepreneurship. Besides banks, today, there are angel investors and venture capitalists with ample funds to invest in start-ups that are taking e-ship to higher and newer heights. In India, for example, no less than an industrialist than Ratan Tata of the iconic Tata Group has turned out to be an angel investor in Startups, in his personal or individual capacity of investing in a new
healthcare venture. There is also the new phenomenon of crowdfunding to finance social entrepreneurship projects which are intended for some social good.

It is the dynamic and innovative nature of entrepreneurship which has met with much appreciation by Warren Buffett in the context of American entrepreneurs (Thomas, 2017). In India many youngsters, with a good education at home and abroad and in corporate employment bright prospects of making good money and comfortable living, are taking to entrepreneurship because of its adventurous and inventive nature and its contribution to social good and economic development of yet their poverty ridden country in a significant measure.

Women are also increasingly taking to Entrepreneurship with the intention of innovating or doing something new, giving a new and extended life to the Schumpeterian entrepreneurship model. There is, in-fact, a sort of Schumpeterian revolution with the markets being flooded by new technologies new materials, new products, new services (Sally, 2019).

**EVOLUTION AND ENDURANCE**

Schumpeter’s entrepreneurship model, first propounded in 1912 as the main thrust of this theory of economic development, with more than a century of life-time, has proved itself to be an enduring and proven entrepreneurship model. The post Marx age is not a witnessed to any dire poverty, but plenty (Rostow, 1962). There are innovations too in the field of Management for a better business world (Wren & Greenwood, 1998). Among other things, business management appear to become more democratic and more considerate of their employees for example, customer relation management is the first of focus of managements all over. Presently, there seems to be a golden age of Entrepreneurship and Innovation (Perez, 2003; Amponsah & Ahmed, 2017b).

**NEO-SCHUMPETERIAN ENTREPRENEURSHIP MODEL**

Historically, the path of business and economic development has been found to be path of innovative entrepreneurship and innovations sketched by Schumpeter (Bodrozic & Adler, 2018). Bodrozic and Adler, in their Neo-Schumpeterian model, link the technological ‘revolutions’ of water power and Iron, steam power and railways, steel and electric power. Automobiles and oil and computers and telecommunications over the 18th and 19th, and 20th centuries with the momentous onset of the ages of steel, railways, automobiles, and computers and Information technology, making sea-changes in the business and economic conditions and in lives and living conditions.

Innovations in management methods have been termed as neo-Schumpeterianism or Schumpeter entrepreneurship. Over the years, entrepreneurship in the Schumpeterian sense of accomplishing something novel and continuous improvement and social imbalances, has turned into a means of women (Gates, 2019). At the same, doubts are also expressed whether entrepreneurial creativity is being channeled into wrong direction (Litan & Hathaway, 2017). Entrepreneurship, according to Baulmol (1990) can be productive, unproductive and destructive.

`Risk`, with which entrepreneurship is very much associated in the traditional economic theory, is not a problem in the Schumpeterian in the neo-Schumpeterian one. For the Schumpeterian entrepreneur is nor-averse to risk-taking. Schumpeterian entrepreneurship theory explain the bursts of entrepreneurship all over, and ongoing sort of Entrepreneurial Revolution very-much in evidence, all-over. Among others, IBM (1911), HP (1939), Microsoft (1970),
Apple (1976); Google (1990) are the standing evidences of the Entrepreneurial Age (Bordozic & Adler, 2018).

Bangladesh, according to the Asian Development Bank from 14 per cent in 1971, incredibly poor country at the time of Independence, and in 2020 it is forecasted to be 8 per cent, and it’s likely to shed its LDC status by 2024 because of its rocketing economy, ahead of other Asian countries including India and China in growth rates (ADB, 2019). Bangladesh Grameen Bank (BGB) is an innovation in financing of the poor (Yunus, 2012). Among others, China’s Ali Baba’s Jack May who had made fortunes within no time but returned in Just mid 50s is perhaps an example of Schumpeterian entrepreneur. So, also, Richard Branson of ‘Virgin’ economy Airways, and Oprah Winfrey of Harpo, Inc.

The evolutionary and enduring Schumpeterian theory has some policy implications.

**POLICY IMPLICATIONS AND CONCLUSION**

States should be entrepreneurial states, as the United Arab Emirates which runs many successful innovative enterprises like Ports and Airways. There should not be any running away from innovative state entrepreneurship. Government should take all steps from infrastructure to training to finance to monitoring to marketing to promote healthy and productive entrepreneurship. Sound banking is essential for healthy entrepreneurship, but presently banking all over seems to be within perfect state. The first client of banking is business. With so many problems, say from environment to education, entrepreneurship should be well diversified. With women supposed to be better entrepreneur, women entrepreneurship calls for the fillip. There is a need for skill development programs and facilities for entrepreneurship development. In sum, all efforts should be in place for healthy overall entrepreneur and sound eco-developed in the underdeveloped and developing countries.

J.A. Schumpeter’s was a ‘foresighted vision of economic development’ more than a century (Becker & Knudsen, 2002), which has proved of historical and contemporary works at the Centre of Schumpeter’s theory of economic development, is the human factor of entrepreneur and progressive innovative entrepreneurship actively over the years, resulting new products, materials, etc., which have resulted in improved standards of living.

**REFERENCES**


