Entrepreneurship

Definition: **Entrepreneurship** from *The AMA Dictionary of Business and Management*

Process of identifying opportunities and marshaling resources so as to create new products and services for which there is a felt need, in anticipation of subsequent profits.

Summary Article: **Entrepreneurship**

From *Sociology of Work: An Encyclopedia*

Sociologists generally understand entrepreneurs to be individuals who engage in activities that lead to the formal creation of a new organization. They may also employ others (i.e., create jobs) and/or create new products, services, routines, organizational forms, or social institutions. Entrepreneurs can include individuals who have identified a strategic opportunity in a market, who crave more autonomy in their work lives, or who lack better alternatives for employment. They may act alone or with colleagues, friends, or family members. Entrepreneurship is therefore a form of work that crosses a broad spectrum of ages, education levels, and occupational backgrounds. It is a complex, multidimensional social phenomenon that involves myriad people, motives, and behaviors.

Definitions of Entrepreneurship

Because entrepreneurship can encompass many different kinds of activities, scholars have drawn on multiple definitions of the term. Innovation is one key dimension on which definitions vary. For example, some entrepreneurs create innovative new organizations that fundamentally change an existing way of doing things; in the aggregate, this means that entrepreneurs play a key role in developing new organizational populations. Joseph Schumpeter is often credited with initially developing this theoretical vision of entrepreneurs as leaders of economic change. Specifically, he argues that they do so by creating a “new combination” of pre-existing materials and forces in the economy. Max Weber’s definition focused less on the innovative capacity of the entrepreneur, yet he still viewed the entrepreneur as an agent of change in that entrepreneurship serves as a counterpoint to managerial bureaucracy.

In practice, however, the vast majority of new organizations merely replicate existing organizational forms and routines. As a result, sociologists such as Howard Aldrich, Patricia Thornton, and Martin Ruef advocate a more inclusive definition of entrepreneurship as the creation of new organizations. By this account, entrepreneurship encompasses a much wider range of activities, and certain forms of entrepreneurship appear far less dynamic and alluring than Schumpeter theorized. For example, the work of small business owners in competitive, low-profit industries and/or undesirable physical locations is often characterized by low pay, a lack of adequate benefits (such as health insurance), vulnerability to market fluctuations, and long, unpredictable hours. In this respect, some forms of entrepreneurship more closely resemble what Arne Kalleberg and colleagues term “bad jobs” than the stereotype of the American dream.

Running parallel to differential forms of entrepreneurial activity are differential considerations about what motivates entrepreneurial action. Individuals may create new organizations for a variety of
reasons, such as the need for a job, a desire for greater autonomy over one's work, greater work/family balance, and/or the realization of a market opportunity. Many of these motives are tied to labor market conditions. In contexts characterized by high unemployment or economic uncertainty, many people may turn to entrepreneurship as a strategy for employment or additional income. For example, as work by Stephen Lippman and colleagues suggests, entrepreneurship rates are high in developing countries, where opportunities for employment in the formal labor market are considerably more limited. Within a given economy, economic necessity also more often motivates disadvantaged groups, such as those marginalized by immigration status, race, ethnicity, or low education.

These incentives differ considerably from what Schumpeter theorized were the primary motives behind the (innovative) entrepreneur, which involved a strong desire to create something new and to found what he termed a “private kingdom.” In this view, entrepreneurs are creative actors taking advantage of a market opportunity and are generally unaffected by conditions in traditional labor markets. Entrepreneurs whose businesses have the greatest potential to create economic change and/or growth are often a privileged minority who hold educational credentials, industry experience, financial resources, and/or social network ties that enable them to recognize and pursue particularly advantageous market opportunities. As scholars such as Howard Aldrich have pointed out, when operationalized empirically, each definition of entrepreneurship presents challenges. For instance, defining an entrepreneur on the basis of innovation or high growth results in selection bias: It is difficult to determine which activities will lead to high growth or will be deemed “innovative” a priori. This problem also applies to the broader definition of entrepreneurship as organizational creation. For instance, it is difficult to empirically capture precisely when and how organizational entities emerge.

Using this inclusive definition also means that it is sometimes complicated to differentiate “self-employment” from “organizational creation,” since the difference centers on identifying the extent to which an organization that is a separate, socially recognized entity has actually been (or will be) established. More generally, selection bias is a concern for entrepreneurship research, given that most data sources focus only on successful entrepreneurs, thus making it difficult to distinguish how (and why) the entrepreneurs who managed to succeed differ from those who did not. Sociologists have extended the use of the term entrepreneurship into other areas of sociological research. For instance, Paul DiMaggio is known for his use of the term institutional entrepreneurs to refer to elites who mobilize resources in order to influence the culture and institutional structure of a society or a societal sector. Rosabeth Moss Kanter has also developed the concept of “intrapreneurship” to refer to innovation within the context of established firms.

Entrepreneurship as a Social Process

Unlike perspectives in psychology and economics, which typically focus on an individual entrepreneur's personality characteristics (e.g., risk taking, needing autonomy, or aggressive), sociologists tend to focus on factors at higher levels of analysis, such as culture, social institutions, and social networks, as primary explanations for entrepreneurial activity. This tradition can largely be traced to the work of Max Weber. For instance, in The Protestant Ethic and the Spirit of Capitalism, Weber argued that the rise of entrepreneurship in the United States was largely because of the difference between the cultural (and particularly religious) values commonly shared in American society and those in most other modern societies at the time. In particular, the methodical attitude toward work that was characteristic of the ascetic Protestants lent itself to a more positive cultural attitude toward entrepreneurship (and the money-making associated with it).
Weber also develops an institutional account of entrepreneurship in an earlier work, *The History of Commercial Partnerships in the Middle Ages*, where he outlines the legal arrangements needed for corporate entities to form. Over the decades, scholars have built on these foundational visions by showing how contextual factors matter for the entrepreneurship process. Such factors have included the laws and cultural norms of the regional environment, social policies, family background, social networks, industry settings, and even the organizational structures and organizational roles to which entrepreneurs have been previously exposed in their careers.

For instance, AnnaLee Saxenian's *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* broke new ground by showing how a culture of trust and dense communication networks at a regional level can facilitate innovation and industry growth. Jesper Sørensen has also showed that individuals who work for large and old bureaucratic firms are less likely to become entrepreneurs.

Of particular interest to sociologists has been the role of an individual's social network structure in facilitating start ups. For instance, having ties to a large and diverse set of people increases the odds not only that an individual will recognize a business opportunity but also that he or she will be able to find business partners and successfully acquire financial capital. This tradition largely builds on Ronald Burt's theory of "structural holes," which posits that an entrepreneur is in the most advantageous position when he or she can minimize redundant information in a network. This can generally be best achieved when a person is linked to several other individuals who are not linked to one another, and who differ in social characteristics and social location. However, strong homophilous ties may be relatively more advantageous when entrepreneurs assemble in a team (which occurs in about half of all entrepreneurial efforts). For instance, Martin Ruef puts forth a framework termed "relational demography" that highlights how entrepreneurial success on a variety of dimensions, such as innovation and organizational survival, is associated with team dynamics. Teams that are demographically similar, and to a lesser extent close in physical proximity and/or the product of strong network ties, are generally more likely to form and be successful. This is largely because trust is of key importance for entrepreneurs' relationships with one another, given that the survival of a new venture is highly uncertain. Ruef also notes that entrepreneurs who value the intrinsic goals of entrepreneurship, rather than the material rewards of profit-making, are more likely to persist in the face of such uncertain odds.

**Social Stratification and Entrepreneurship**

Entrepreneurship is of particular importance for sociologists of work because of its association with social stratification. For instance, despite being viewed as a path toward upward mobility in most capitalist societies, entrepreneurship often results in failure, despite substantial financial investment. Although there is considerable intergenerational transmission of entrepreneurship (as in other occupations), Jesper Sørensen finds that this transmission is largely a result of parental socialization regarding aspirations and skills, rather than the passing on of financial or social capital. Nevertheless, entrepreneurship has proven to be an economic strategy for certain ethnic (often immigrant) groups, particularly those in close geographical proximity. Specifically, these "ethnic enclaves" tend to have a market for specialized goods and services among their members, and their strong in-group social ties (which are generally high in trust) facilitate start-ups. However, these markets are also relatively limited in size, and in this way, entrepreneurs in these markets differ from those in more lucrative and innovative forms of entrepreneurship that reach a broader customer base.

Gender is also a key basis of social stratification in entrepreneurship. For instance, men are about twice
as likely as women to be entrepreneurs, and their businesses are much larger, lucrative, and innovative on average. To a considerable extent, this inequality can be explained by broader patterns of gender inequality in the labor market. Women tend to have less managerial experience on average, have less advantageous network structures through which they might recognize business opportunities, have fewer personal financial resources that they can draw on, and often have gender-segregated skills and occupational experience. In addition to these structural drawbacks, cultural beliefs that associate the activity of entrepreneurship with male-stereotyped dispositions, such as risk-taking, aggressiveness, and competitiveness, may further dissuade women from engaging in entrepreneurial activity. As a result of these myriad disadvantages, women entrepreneurs tend to be more concentrated in industries that are crowded, competitive, and nonlucrative, such as retail, food service, and interpersonal care, and are more likely to run small, home-based businesses.

These disparities arise in part because women entrepreneurs are more likely than male counterparts to start businesses in order to resolve work and family conflict. Michelle Budig's research indicates, however, that this motivation is particularly relevant for women in nonprofessional occupations, who often experience less workplace flexibility than those in professional occupations. Women also often start businesses with their spouses, although gendered assumptions about work and family are also strongly embedded in these relationships. For instance, Martin Ruef finds that entrepreneurial spouses are more likely to conform to a traditional gender division of labor than most dual-career couples. However, studies suggest that few, if any, gender differences in the success of small businesses persist after adjusting for an entrepreneur's human capital, industry, and business size.

See Also:

- Bureaucracy
- “Good” Jobs and “Bad” Jobs
- Ideal Worker
- Job Creation
- Occupational Segregation by Gender and Race
- Self-Employment

Further Readings


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