LITERATURE OVERVIEW ON ENTREPRENEURSHIP AND INNOVATION

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Abstract
The aspiration to profit prompts (some) entrepreneurs to innovate, to stand out from the crowd. Seeking the new and applying it to the products placed on the market entails both constant mental activity and a correctly projected and assumed transposition. The intertemporal dimension of entrepreneurial decisions is the game-changer, making the difference between winning and losing.

This article aims to make a narrative review of the specialty literature to identify the primary opinions that refer to innovation and the entrepreneurial activity conducted by individuals within the market process.

Keywords: *Entrepreneurship, Innovation, Entrepreneur*

JEL classification: *L26, O30, D50*

1. Introduction

Innovation is a facilitator and a champion of change. Mises once again gets to the heart of this matter, stating that irrespective of the sphere of human activity, innovation is a challenge not only for those who are used to routine, repetitive activities, but also for experts, practitioners or former champions of innovation in the past (Mises, 2007 [1957], p. 377).

The ascent of an idea is an innovation, a novel and unprecedented aspect that adds to already existing ideas, and what justifies this statement is in fact our

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lacking or limited knowledge that prevented us from seeing something that did not exist beforehand (Mises, 2007 [1957], p. 96). Although there is much debate in the economic literature on how innovation operates in the marketplace, it is another piece of the puzzle that goes towards making a profit from carrying out entrepreneurial activities. The hypotheses based on statements postulating that innovation appears to have either a balancing or disruptive effect on the market result from the authors' different approaches to the innovative process and moreover from the definition for the concept of *innovation*.

2. Methodology

This article aims to make a narrative review of the specialty literature to identify the primary opinions that refer to *innovation* and the *entrepreneurial activity* conducted by individuals. From a methodological perspective and in line with the set goal, we selected a series of fundamental works in the literature that approach the topic of our analysis. A synthesis was subsequently produced for clarification purposes, starting from the interdependence between entrepreneurship and innovation and using *qualitative synthesis methods*.

3. Is the entrepreneur an innovator or not?

The need for innovation and the innovative process was agreed and quickly supported by those who tackled with entrepreneurial activities. As with the other key elements in defining entrepreneurship, innovation also engendered heterogeneous opinions both in terms of definition thereof, and in terms of how innovation operates or translates into the market process.

If we analyse the position of individuals in the marketplace, we note that there are two dominant categories: regular people and entrepreneurs. We can state with the same (relative) certainty that the former produce no new ideas, simply emulating what already exists and in no way contributing to the progress or change of the world they live in. At the opposite pole lies the latter category, guided by the idea of change. In their vision, the mere idea does not suffice and they set out to change their operating environment by using innovation. Change stems from new ideas and from the result of entrepreneurs' actions. What these individuals obtain is, without exception, an individual result. Mises noted that, in fact, an innovator acts where other individuals think acting is untenable or impossible (Mises L. , 2007 [1957], p. 193). Moreover, in reference to technological innovation, he brings the prior saving process to the forefront given that additional capital is required in order to put new inventions into practice (Mises, 2018 [1949], p. 609).

Jean Baptiste Say brought to the forefront an idea that had been relatively untapped up to that point, namely that the entrepreneur has to innovate on an ongoing basis. In order for entrepreneurs to face challenges successfully, it is necessary to always have elements of novelty (Say, 1821). Alfred Marshall highlights the innovative function of the entrepreneur given the context in which this market actor constantly seeks opportunities to reduce costs (Marshall, 1890).

One of the most notorious opinions on *innovation* was formulated by Joseph Schumpeter. To provide the framework in which he makes his arguments, he defines *innovation* as a different manner of doing things in the reality of economic life (Schumpeter, 1939, p. 84), a matter also highlighted by Mises. *The cause of change is change*. Under these circumstances, innovation is the activity or function of a particular group of individuals named *entrepreneurs* (Sweezy, 1943, p. 93). Without innovation there are no entrepreneurs, and without entrepreneurial achievements there are no revenues and capitalist progress (Schumpeter, 1939, p. 1033). Thus, the entrepreneur devised by Schumpeter is an individual with heroic abilities that acts on the marketplace in a different manner, being a disruptive force, and that seeks to introduce *new combinations* of production factors, new products, production methods, etc. The disruption of the prior/existing balance is achieved via *creative destruction*. By completely rejecting a context dominated by balance, Schumpeter builds a reality in which the entrepreneur is *sui generis* an agent of change via *innovation*.

The image of the entrepreneur created by Schumpeter is individualized by a series of aspects, and one thing that draws our attention is the character the entrepreneur has to have. In other words, not everyone is able to concoct combinations of production factors, and this mission is only incumbent on and compatible with truly motivated individuals defined by their *strong determination*. Only a few individuals have the required skills to take control in such situations (Boutillier, S., Uzunidis, D., 2014, p. 38). Entrepreneurship is not a certainty throughout the lifespan of an individual. The only people that become entrepreneurs and maintain this status are those that manage to constantly combine production factors. Such a context is without a doubt unstable if we were to consider that other entrepreneurs can tap into innovation via *creative destruction*. Thus, the entrepreneurial function is constantly dominated by uncertainty. The making of combinations of production factors must not become a routine for Schumpeterian entrepreneurs. If this happens, the economic actor loses their capacity as entrepreneur, as routine activities are those that destroy the innovative process (Schumpeter, 1939). Schumpeter's technological progress is divided into three phases (invention, innovation and imitation), each of these interwoven with the others. Thus, to be able to capitalize on an invention, it is necessary to have an input that enables its transformation into an innovation an applying it in the marketplace. The last phase relates to replicating innovation, a phase that also includes specialized knowledge among others.

In Schumpeter's vision, individuals are entrepreneurs when they discover combinations of production factors and lose this character immediately after they create their business, give up on seeking new combinations and carry out routing activities (Foss, N.; Klein, P. J., 2012, p. 33). The most suitable choices in terms of innovation are made without deliberation, unconsciously (Schumpeter, 1934 , p. 133). However, innovation also comes upon barriers engendered by the resistance or uncertainty of an episode/event that is likely to occur, but that has never happened before. It is sometimes very difficult to break these barriers, but however it may be, this task is always incumbent on the entrepreneur (McCraw, 2007, p. 168), even if this means entirely changing consumer behaviour (McCraw, 2007, p. 258).

While Schumpeter sees the entrepreneur as *sui generis* an agent of innovation and change, for Kirzner the entrepreneur is not a source of innovation *ex nihilo*, but rather an individual constantly seeking existing/given opportunities awaiting to be identified. In the process of economic development, the entrepreneur should be seen as a respondent to opportunities, not as a creator thereof. The entrepreneur identifies profit-generating opportunities and has a completely different focus compared to the Schumpeterian entrepreneur: the Kirznerian entrepreneur is constantly seeking market equilibrium. Although Kirzner accepts the possibility of entrepreneurship without innovation, he also manages to admit a situation in which the entrepreneur has to tap into innovation: *innovative activity*. Starting from the idea of inter-temporality, he argues that there are situations where the mere introduction of innovation does not suffice if one does not take into consideration the discrepancy of pricing at different times, which could otherwise take the form of speculation (Kirzner, 1985, p. 85). Innovation entails the creation of a new *output*, a new method, etc., creating an opportunity that did not exist up to that point, requesting both creativity and imagination from the involved actor. Irrespective of the form of entrepreneurial activity, we cannot overlook the need for knowledge, alertness and motivation to make a profit. Rothbard criticized the portrait of the Kirznerian entrepreneur for its adoption of the Walrasian equilibrium, as well as for its mistake of considering resources as an unchanging factor (Rothbard, 1985, pg. 285-286). Under such conditions, technological innovation could have been deemed the only driving force of economy.

Although he was not particularly preoccupied with the matter of innovation, Frank Knight does bring it into discussion in the context of the entrepreneurial function, namely as assuming risk and uncertainty. Starting from this observation, one of the primary tasks incumbent on the entrepreneur is to initiate change and to introduce innovation, as well as to adapt to changes in the economic environment (Knight, 1921).

As can be noted, there is a general tendency to accept innovation and the innovative process as part of the entrepreneurial activity. However, there are also situations where the conduct of entrepreneurial activity is said to not entail innovation. In Kirzner's opinion, this direction comprises two categories of entrepreneurial activities: *arbitrage* and *speculation* (Kirzner, 1985, pg. 84-86). In his opinion, *arbitrage* requires neither capital, not assuming any risks by the actor acting concurrently in different spaces or markets. Similarly, speculation is an intertemporal speculative activity involving the entrepreneurs who believe they identified price differentials between the current time and a future point in time. Reporting to Kirzner's writings, Jacobson states that for the former even imitators can benefit from the innovators' actions and moreover they can also be included in the entrepreneur category without requiring any distinction between them (Jacobson, 1992, p. 788). Nevertheless, he highlights a major aspect that is also featured in part in the writings of Theodore Levitt: the more an innovation is imitated, the more the relevant profits decrease and eventually disappear, because the market reaches the point of equilibrium, until such time as a new innovation will change the whole context once again. This entire process is a dynamic one, where competition does not allow a company to maintain its position for too long unless it constantly innovates (Jacobson, 1992, p. 787). However, Levitt admits that a company cannot innovate constantly and that sometimes it must be a systematic imitator to be able to handle the competition (Levitt, 1986), as well as that there might be some deviations between the time of innovation and the time of imitation caused by a lack of specific knowledge that would enable this whole replicating process (Jacobson, 1992, p. 791).

4. Entrepreneurial innovation in the context of today's world

Nowadays' society holds *start-ups* in high regard, failing to understand that in fact these newly-founded are not the only ones that contribute to the overall development. Whether we are talking about new companies or about companies that have long passed this phase and are now expanding, they all share a few core elements that they developed: decisiveness, alertness, adaptation and – most importantly – innovation (Foss, N.; Klein, P. J., 2012, p. 223).

Recent approaches in the management literature confer a special position to the idea of *innovation*. The progress of capitalist society is determined by the force of innovation (Baumol, 2002), although in a best case scenario it is only a peripheral part of the standard theory of the firm, garnering more attention in the modern growth theory. Essentially, innovation is at the base of the competitive process, which causes less innovative firms to lose their position on the marketplace in favour of their competition. Baumol developed a few ideas to prove that innovation can be integrated in the neoclassic *framework*. He describes a process in which companies compete with one another based on innovation, not based on price, emphasizing the desideratum according to which successful companies can be ineffective, but they can also reap profits if they continue to innovate. Without innovation, even the most efficient entrepreneurial activity undertaken will be removed/eliminated from the marketplace by its (more) innovative competitors.

In his attempt to address the changes arising in the marketplace, Peter Drucker bring into discussion an entrepreneurial society that results from an economy centred on innovative entrepreneurship, alongside an easy government system or, more accurately, one exerting minimal state intervention in issues related to development. Focusing his examples on the model of the United States of America, the author argues that in order to be able to talk about a successful and entrepreneur-friendly economy, we must discuss about the situation in which this pivotal market actor managed to eschew depending on a specific industry (Drucker, 1985). Refusing to offer examples from the *high tech* industry, which he calls out for exaggerating discussions about innovation, he prefers to tap into other domains. Studying the matter of innovation, the author states – just like his predecessors – that this is the specific instrument for entrepreneurs, as well as the means via which the latter benefit from change as an opportunity for a different business or for a different service (Drucker, 1985, p. 20). Therefore, the entrepreneurs' mission is to always research sources of innovation, the changes and signals that indicate the success of innovation. Moreover, they also have to know how to apply the principles of successful innovation.

Successful innovation practice is based on systematic hard work. Moreover, Drucker also introduces the idea of *systematic innovation*, which he describes as a context that favours tapping into innovative opportunities. He guides his efforts towards identifying certain factors that determine a potential identification/grasp of *new innovations*:

(1) the unexpected;

(2) incompatibility/dissonance (*the incongruity*);

(3) innovation based on the need/necessity for the process;

(4) changes in the sector or in the market structure that surprise everyone;

(5) demographics (changes in the volume and structure of the population);

(6) changes in terms of perception, state and significations;

(7) new scientific and non-scientific knowledge (Drucker, 1985, p. 31).

Sometimes, new innovations can be capitalized on and directed towards making a profit. Brynjolfsson and McAfee call attention to the need to constantly create new opportunities, correlating their idea to Schumpeter's concept of *creative destruction*. What actually happens in the marketplace is tightly connected to the information technology, which is capable to transform all the current economic sectors one by one (Brynjolfsson, E., McAfee, A., 2011).

5. Conclusions

Based on specific knowledge dispersed in each individual, innovation promises and even provides the framework for society changes and progress. Even though not every new idea is substantiated in the entrepreneurial activity, a significant part thereof does generate earnings for the entrepreneurs involved in this complex and complicated innovative process. The risk-laden and uncertain character of the innovative activity was validated by the reality of the competitive market. As a result, in the context of market uncertainty, making a profit and bearing risks are both equally possible. What stimulates entrepreneurs to innovate is not by a long shot their wish to promote what is new/novel, but their need to survive in a dynamic market context. Maintaining an already acquired position or shooting for a top position in the competition hierarchy drives entrepreneurs to come up with solutions they can translate into the marketplace to satisfy consumers' wishes and needs: the more specific and more consumer-centric an entrepreneur's decision and activity, the higher their chances of profit.

One could argue that current economies are dependent on a dynamic innovation environment. Economic growth generated an exponential boost in the interaction between *innovation* and *entrepreneurship*, but this is a bidirectional relationship. Innovation is certainly dependent on the entrepreneurial context and moreover on the cooperation between the actors within the market process. One *sine qua non* condition to implementing innovation in entrepreneurial products is having some specific abilities. These are the means via which entrepreneurial innovation can be disseminated and adopted.

The stiff competition within the marketplace is the driving force of entrepreneurs that wish to maintain or change their position in the hierarchy towards innovation. Under these circumstances, we recognize the importance of innovation in carrying out the entrepreneurial act. Innovation is absolutely correlated with the investment of a certain capital, as well as with the possession of specific knowledge allowing for access on a marketplace that can satisfy consumers' needs and wishes.

Innovation, creativity and the implementation of enhanced technological methods entail incentives associated with the anticipation of price increases (Mises, 2018 [1949], p. 470). One of the boosts that entrepreneur individuals get to act towards change and innovation is determined by the anticipation of process for certain goods they set out to sell on the marketplace. *What the entrepreneur, in embarking upon a definite project, has in mind is only the first steps of a transformation which, provided no changes in the data occur other than those induced by his project, would result in establishing the state of equilibrium* (Mises, 2018 [1949], p. 711).

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