

ENTREPRENORIAL ACTIVITY VERSUS ENTREPRENEURSHIP  
EDUCATION

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**Abstract:** *Entrepreneurship is one of the fastest-growing discipline throughout the world. However, the importance of entrepreneurship in economic theory is not new and consistent interest in this topic can be traced back to almost a century ago. As with any young discipline, the role and content of entrepreneurship education remains controversial. It seems difficult to decide if entrepreneurship is rather “science” than “art”, or if can be divided between teachable and non-teachable elements, or if entrepreneurship courses should focus on the advancement of personal enterprising attributes or on the ability to start, develop and manage a firm. This paper questions the relevance and appropriateness of entrepreneurship education. The results show that there is still in important gap between the prescriptions of entrepreneurship courses and training programs, on the one hand, and the insights of entrepreneurship theory, on the other hand.*

**Keywords:** entrepreneurship education, entrepreneur abilities, innovation, uncertainty, entrepreneurship theory

JEL Classification: A20, B10, L26

### Introduction

Entrepreneurship is considered an essential ingredient for strong innovation and economic growth, especially in a knowledge-based society. It is widely believed that entrepreneurial activity can be spurred through entrepreneurship education. Consequently, entrepreneurship is one of the fastest-growing disciplines throughout the world. However, the importance of entrepreneurship in economic theory is not new and consistent interest in this topic can be traced back to almost a century ago. Economists such as Joseph Schumpeter, Frank Knight and Israel Kirzner have emphasized the role of the entrepreneur in the market process of resources' allocation.

As with any young discipline, the role and content of entrepreneurship education remains controversial. It seems difficult to decide if entrepreneurship is

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rather science than art or if can be divided between teachable and non-teachable elements, or if entrepreneurship courses should focus on the advancement of personal enterprising attributes or on the ability to start, develop and manage a firm. A growing literature attempts to evaluate the effects of entrepreneurship education and so far the results are rather mixed.

This paper questions the relevance and appropriateness of entrepreneurship education. It attempts to clarify if entrepreneurship can be taught, in light of the most important theories of entrepreneurship. The results show that there is still an important gap between the prescriptions of entrepreneurship courses and training programs, on the one hand, and the insights of entrepreneurship theory, on the other hand. Therefore, a closer contact between entrepreneurship courses and economics should deliver important gains for both disciplines.

## **Entrepreneurship in economic theory**

Entrepreneurship has received much attention in the literature. In what follows, we offer a brief overview of the notion of entrepreneurship.

### *1.1. Schumpeter*

Schumpeter's (1911; 1939) well-known concept of the entrepreneur as innovator is a prime example of an idea that is much cited, but perhaps little used. Schumpeter's entrepreneur introduces "new combinations" – new products, production methods, markets, sources of supply, or industrial combinations – shaking the economy out of its previous equilibrium through a process Schumpeter termed "creative destruction".

Perhaps Kirzner best described the market impact of Schumpeter's entrepreneur when he wrote: "...for Schumpeter the essence of entrepreneurship is the ability to break away from routine, to destroy existing structures, to move the system away from the even, circular flow of equilibrium" (1973, p. 127).

### *1.2. Kirzner*

Another well-known approach in economics is Kirzner's (1973; 1979; 1992) concept of entrepreneurship as "alertness" to profit opportunities. The simplest case is that of the arbitrageur, who discovers a discrepancy in present prices that can be exploited for financial gain. In a more typical case, the entrepreneur is alert to a new product or a superior production process and steps in to fill this market gap before others. Success, in this view, comes not from following a well specified maximization problem, but from having some insight that no one else has. As in Schumpeter's vision, Kirzner's entrepreneurs do not own capital; they need only be alert to profit opportunities. Because they own no assets, they bear no uncertainty, and hence cannot earn losses; the worst that can happen to an entrepreneur is the failure to discover an existing profit opportunity. For these

reasons, the link between Kirznerian entrepreneurship and other branches of economic analysis, such as industrial organization, innovation, and the theory of the firm, is weak. Hence Kirzner's concept has not generated a large body of applications.

### *1.3. Cantillon, Knight, and Mises*

An alternative to the foregoing accounts is that entrepreneurship consists of judgmental decision-making under conditions of uncertainty. According to Cantillon's original formulation, the entrepreneur is a specialist in taking on risk. He "insures" workers by buying their products (or their labor services) for resale before consumers have indicated how much they are willing to pay for them. This idea was refined by the U.S. economist Frank Knight (1921), who distinguished between risk, which is insurable, and uncertainty, which is not. Risk relates to recurring events whose relative frequency is known from past experience, while uncertainty relates to unique events whose probability can only be subjectively estimated. Changes affecting the marketing of consumer products generally fall in the uncertainty category. Individual tastes, for example, are affected by group culture, which, in turn, depends on fashion trends that are essentially unique.

Entrepreneurs, in Mises's (1949) understanding of the market, make their production plans based on the current prices of factors of production and the anticipated future prices of consumer goods.

Judgment is distinct from boldness, innovation, alertness, and leadership. Judgment must be exercised in mundane circumstances, for ongoing operations as well as new ventures. Alertness is the ability to react to *existing* opportunities while judgment refers to the creation of *new* opportunities. Those who specialize in judgmental decision-making may be dynamic, charismatic leaders, but they need not possess these traits. In short, in this view, decision making under uncertainty is entrepreneurial, whether it involves imagination, creativity, leadership, and related factors or not.

## **Approaches to teaching entrepreneurship**

It is clear that "entrepreneurship" is a highly elastic term therefore it is not surprising that entrepreneurship curricula vary widely in content and approach. How are all these aspects of entrepreneurship taught? Let us consider each of these elements in turn.

*a. Managing existing resources.* Effective management of existing resources, whether in new or established organizations, requires not only technical business skills (accounting, marketing, finance, business law), but also leadership and strategic decision making. These subjects, of course, constitute the core of most undergraduate business programs. Such courses typically employ a

combination of traditional classroom instruction (lectures and discussion), applied team projects, and, increasingly, the case method.

*b. Acquiring new resources.* Many undergraduate entrepreneurship courses focus on the acquisition of new resources: writing business plans, acquiring venture capital, marketing new products, acquiring intellectual property, and so on. These skills are usually taught through a combination of basic analytical principles, historical case studies and examples, classroom simulations, and real-world projects.

*c. Identifying existing opportunities and creating new ones.* An increasing number of entrepreneurship courses focus not on the mechanics of running a business enterprise, but on identifying opportunities for creating new sources of value. Opportunity identification involves not only technical skills like financial analysis and market research, but also less tangible forms of creativity, team building, problem solving, and leadership. While value can of course be created not only by starting new activities, but also by improving the operation of existing activities, courses in opportunity identification tend to emphasize the launching of new ventures (firms, products, or services). But can the necessary attributes be acquired in the classroom? McGrath and MacMillan (2000) argue that particular individuals have an “entrepreneurial mindset” that enables and encourages them to find opportunities overlooked or ignored by others, and that this mindset is developed through experience, rather than formal instruction. Entrepreneurs with experience owning and operating small businesses tend to be better at identifying new opportunities than those potential entrepreneurs who lack such experience. This suggests that opportunities for teaching opportunity identification may be limited.

*d. Bearing uncertainty, exercising alertness, fostering technological or organizational innovation, and adjusting to change.* Because these are economic functions, rather than attributes of particular individuals, it is less clear how such activities can be taught through formal instruction. Mises expresses strong skepticism on this point. entrepreneurship, Mises writes, is a fundamentally creative activity: “What distinguishes the successful entrepreneur and promoter from other people is precisely the fact that he does not let himself be guided by what was and is, but arranges his affairs on the ground of his opinion about the future. He sees the past and the present as other people do; but he judges the future in a different way” (Mises, 1949, p. 585). It is clear, moreover, in Kirzner’s formulation, that “alertness” cannot be learned, that it cannot be acquired through investments in education and training or from on-the-job experience.

### **Entrepreneurship and economics: is there a trade-off?**

The foregoing remarks indicate a gulf between economists’ conceptions of entrepreneurship, as the driving force behind the market economy, and those practical manifestations of entrepreneurship studied in the classroom.

One reason economists neglected the theory of the firm is that they thought the internal workings of the business firm were beyond the scope of economic analysis. In Pigou's (1921, p. 463) words: "It is not the business of economists to teach woolen manufacturers to make and sell wool, or brewers how to make and sell beer, or any other business men how to do their job. If that was what we were out for, we should, I imagine, immediately quit our desks and get somebody – doubtless at a heavy premium, for we should be thoroughly inefficient – to take us into his woolen mill or his brewery".

Likewise, the technical arts of managing existing resources, acquiring new resources, identifying and creating opportunities, bearing uncertainty, and innovating—the subjects of most entrepreneurship courses – are perhaps regarded as outside the economist's legitimate expertise.

Or, as Harvard Business School professor Howard Stevenson puts it, "if people have innate musical talent, you can't necessarily teach them to become Beethoven. But if they have that innate talent, then they probably would still benefit from piano lessons" (Stevenson et al., 2002).

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