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Academy of Management. The Academy of Management Review (pre-1986); Apr 1984; 9, 000002;
Entrepreneurship
pg. 354

©*Academy of Management Review, 1984, Vol. 9, No. 2, 354-359.*

Differentiating Entrepreneurs from Small Business Owners: A Conceptualization

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The literature of small business and entrepreneurship is explored. It is established that, although there is an overlap between entrepreneurial firms and small business firms, they are different entities. Using the 1934 work of Schumpeter and recognizing the additions to the field of current writers, a conceptual framework is established for the differentiation of entrepreneurs from small business owners.

Schumpeter (1934) was among the first to identify the entrepreneur as an entity worthy of study, distinct from business owners and managers. He described entrepreneurs as individuals whose function was to carry out new combinations of means of production. To Schumpeter, this function was fundamental to economic development. Entrepreneurs, therefore, warranted study independent of capitalists and business managers. Today there continues to be an implicit assumption that the entrepreneur contributes disproportionately to the economy of a nation, yet little has been done to isolate this individual for further analysis. Extending the theory of Schumpeter, who argued that an entrepreneur was distinguishable both by type and by conduct, two conceptualizations are proposed in this paper: one for differentiating entrepreneurs from small business owner/managers and the second for differentiating entrepreneurial ventures from small businesses.

Entrepreneurship: The Contribution

Because the definition of entrepreneurship denotes the creation of some combination that did not previously exist, entrepreneurship often is equated with small business ownership and management. The small business sector has received attention in the economic and management literature because of its significance to the economy. The Small Business Administration (U.S. Government Printing Office, 1982) has compiled a list of statistics that dramatically demonstrate the impact of small business on the nation's economy:

1. There are 14.7 million businesses in the United States, of which 3.2 million are farms.
2. Approximately 99.7 percent of these businesses are considered small by the SBA's size standards for loan applicants.
3. The small businesses identified above account for: 38 percent of the gross national product; 44 percent of the gross business product; and 47 percent of total U.S. business employment.
4. The small business sector identified above accounted for the vast majority of the net new jobs created by business between 1969 and 1976.

Although there is no uniform definition of a small firm, the statistics above relate to businesses that fall within SBA guidelines as being small. The Small Business Act states that "a small business concern shall be deemed to be one which is independently owned and operated and which is not dominant in

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its field of operation" (U.S. Small Business Administration, 1978, p. 121.1).

As the SBA statistics demonstrate, small business research is justified because of sheer numbers. It must be noted that small firms are treated as a separate sector, not because they are cohesive and homogeneous, but because there are certain common management limitations due to extremely limited resources as compared with the "deep pockets" of resources of larger corporate organizations. Research often is directed toward the implications of public policy developments or the impact of environmental variables on the small business sector (Chilton & Weidenbaum, 1982; Goodman, 1981; Legler & Hoy, 1982; Robinson, 1982).

Although small business is a significant segment of the American economy, the entrepreneurial portion of that segment may wield a disproportionate influence. If entrepreneurship can be viewed as incorporating innovation and growth, the most fertile ground for management research may be entrepreneurs and entrepreneurial ventures. Entrepreneurship has been found to extend beyond small businesses: some large corporations have been described as engaging in entrepreneurial behavior (Ronstadt, 1982, Schollhammer, 1982, Shils, 1982). Additionally, a person who owns an enterprise is not necessarily an entrepreneur (Martin, 1982). Clearly, an overlap exists of entrepreneurship with the small business sector. The concern of this paper is: If entrepreneurs exist as entities distinct from small and large organizations and if entrepreneurial activity is a fundamental contributor to economic development, on what bases may entrepreneurs be separated from nonentrepreneurial managers in order for the phenomenon of entrepreneurship to be studied and understood?

Literature Review: The "Entrepreneur"

One of the earliest definitions of an entrepreneur was that of Cantillion (circa 1700) who described the individual as a rational decision maker who assumed the risk and provided management for the firm (Kilby, 1971). Schumpeter (1934) credited Mill (1848) with bringing the term into general use among economists. Mill, also, believed that the key factor in distinguishing a manager from an entrepreneur was the bearing of risk. Schumpeter, however, countered that risk bearing was inherent in ownership and that entrepreneurs, the combiners, were not necessarily owners; therefore, the risk bearing propensity would not be a trait. Martin (1982) believes that capital risk is a function of the investor. Further, Brockhaus (1980) cast doubt on the validity of the risk taking propensity as an entrepreneurial characteristic with his descriptive work. Brockhaus found no statistical difference in the risk preference patterns of a group of entrepreneurs and a group of managers. It should be noted that Brockhaus used the establishment of a business as the criterion for inclusion of the participants in the entrepreneur group. Omitting business ownership as a designation of entrepreneurship permits both the inclusion of corporate entrepreneurs and the elimination of the risk bearing characteristic. However, many writers have asserted and continue to assert that risk bearing is a prime factor in the entrepreneurial character and function (McClelland, 1961; Palmer, 1971; Timmons, 1978; Welsh & White, 1981).

Numerous normative and descriptive studies have supported various sets of personality characteristics of entrepreneurship. Brockhaus (1982) has presented an excellent historic overview of the definitions of entrepreneurs. Perhaps the most important factor from a societal perspective is the characteristic of innovation. Schumpeter (1934) believed that innovation was the central characteristic of the entrepreneurial endeavor. His emphasis on this point is revealed in his declaration that one behaves as an entrepreneur only when carrying out innovations. McClelland (1961) stated that energetic and/or novel instrumental activity was a key factor in entrepreneurial activity. Martin (1982) stressed that entrepreneurial creativity is different from literary or artistic creativity in that the entrepreneur does not innovate by creating ideas but by exploiting the value of ideas. Table 1 displays a sampling of entrepreneurial characteristics appearing in the literature.

The characteristics listed in Table 1 represent attitudes and behaviors that may be manifested by entrepreneurs. Demographic characteristics such as birth order, sex, or marital status have been examined in certain of the studies cited and in various other investigations (Vaught & Hoy, 1981). They have been excluded from the present conceptualization because of the inability of a prospective entrepreneur to alter those variables in order to increase his/her probability of success.

Schein's (1974) work on career anchors clarifies some of the differences in individual approaches to careers. In studying M.I.T. graduates' careers, he

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Table 1
Characteristics of Entrepreneurs

Date	Author(s)	Characteristic(s)	Normative	Empirical
1848	Mill	Riskbearing	×	
1917	Weber	Source of formal authority	×	
1934	Schumpeter	Innovation, initiative	×	
1954	Sutton	Desire for responsibility	×	
1959	Hartman	Source of formal authority	×	
1961	McClelland	Risk taking, need for achievement		×
1963	Davids	Ambition; desire for independence; responsibility; self-confidence		×
1964	Pickle	Drive/mental; human relations; communication ability; technical knowledge		×
1971	Palmer	Risk measurement		×
1971	Hornaday & Aboud	Need for achievement; autonomy; aggression; power; recognition; innovative/independent		×
1973	Winter	Need for power	×	
1974	Borland	Internal locus of control		×
1974	Liles	Need for achievement		×
1977	Gasse	Personal value orientation		×
1978	Timmons	Drive/self-confidence; goal oriented moderated risk taker; internal locus of control; creativity/innovation	×	×
1980	Sexton	Energetic/ambitious; positive reaction to setbacks		×
1981	Welsh & White	Need to control; responsibility seeker; self-confidence/drive; challenge taker; moderate risk taker		×
1982	Dunkelberg & Cooper	Growth oriented; independence oriented; craftsman oriented		×

found that five types of job directions were prevalent. He described these as career anchors that included managerial competence, technical/functional competence, security need, independence need, and creativity. The entrepreneurs made up his creative group.

> The group concerned with creativity is the most interesting in that it contains the entrepreneurs. Four of these men are successful in that they have been able to launch enterprises which have succeeded and have brought to their founders either fame or fortune or both. The kinds of activities vary greatly—but they all have in common that they are clear extensions of the person and his identity is heavily involved in the vehicle which is created (1974, p. 19).

It is difficult to sketch a profile of an entrepreneur from the attitudinal and behavioral characteristics listed in Table 1. It may be more appropriate to accept Vesper's (1980) view of a continuum along which several "types" of entrepreneurs exist. The question then becomes: Which characteristics and what level of intensity do the entrepreneurs possess at various points on the continuum? Vesper described the entrepreneur as an individual but implied that he or she could be found working with others in larger organizations. His first type, the "Solo Self-Employed Individual," is essentially what is treated here as the small business owner/operator, but not truly an entrepreneur in the Schumpeterian sense because a new combination is not created.

A major obstacle preventing the attribution of characteristics to entrepreneurs in firms along Vesper's continuum is the great diversity of sources from which the authors cited in Table 1 derived the identified characteristics. Those citations that are indicated in Table 1 as normative are generally anecdotal, describing either the authors' personal impressions or conclusions drawn from reading the works of others. The empirical studies draw from quite diverse samples. McClelland's (1961) entrepreneurs were in fact business executives representing various functional specialities: general management, sales and marketing, finance, engineering, and personnel. Senior marketing managers were found to have the highest need for achievement. More frequently, samples of small business owners are chosen for study (Hornaday & Aboud, 1971; Pickle, 1964). The assumption underlying these selections is that the entrepreneur was the individual who brought the resources together and initiated the venture. Successful entrepreneurs are defined as those whose enterprises have survived some period of time, perhaps two years. The question then is: Are the characteristics listed in Table 1 those of entrepreneurs, of small business owners, or of some mixture that may or may not be capable of demonstrating the entrepreneurial function of economic development?

The Entrepreneurial Venture

A considerable body of literature has been built up treating the stages of organizational development

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(Vozikis, 1979). This growth-orientation, in and of itself, would represent an entrepreneurial characteristic to some scholars (Dunkelberg & Cooper, 1982). Yet, as Vesper (1980) has pointed out in his continuum of venture types, many business owners never intend for their businesses to grow beyond what they consider to be a controllable size. It is necessary to go beyond the notion of corporate life cycles and stages to conceive of an entrepreneurial venture.

Glueck (1980) distinguished between entrepreneurial ventures and what he termed family business ventures by focusing on strategic practices. Strategic management in Glueck's family business must emphasize preferences and needs of the family as opposed to those of the business. When in conflict, the needs of the family will override those of the business. Glueck cited the oft observed family business strategies to remain independent and to provide outlets for family investment and careers for family members as an example of conflict. In contrast, an entrepreneurial strategist would opt for pursuit of growth and maintenance of the firm's distinctive competence through obtaining the best personnel available. Glueck's distinction is that strategic practices oriented toward the best interests of the firm are observed in entrepreneurial ventures.

An entrepreneurial venture can be identified by the strategic behavior of the firms. Schumpeter (1934) suggested that five categories of behavior can be observed that are characteristic of an entrepreneurial venture. These categories, listed below, are supported by Vesper (1980) and can be used as the basis for classification criteria.

1. Introduction of new goods
2. Introduction of new methods of production
3. Opening of new markets
4. Opening of new sources of supply
5. Industrial reorganization

Because of the ambiguity of criterion 4, it is not employed in this study. If any one of the remaining four criteria is observed in a firm's strategic actions, then that firm can be classified as an entrepreneurial venture. These criteria do permit the classification of a new small traditional firm as entrepreneurial if that firm represents an original entry into a market. Again, the determining factor would be whether organizational activity in any of the four criteria resulted in a new combination, indicating innovative behavior. Additionally, these criteria permit medium and large firms to be classified either as entrepreneurial ventures themselves or as the instigators of entrepreneurial ventures.

Schumpeter's criteria represent evidence of innovative strategies or innovative strategic postures. The criteria also emphasize the behavior of a firm consistent with its own best interests. This perspective is congruent with the development and pursuit of a distinctive competence prescribed by Vesper (1980) as a requirement for an entrepreneurial venture.

A Conceptual Distinction Between Small Business and Entrepreneurship

From the foregoing discussion, it can be seen that, although there is considerable overlap between small business and entrepreneurship, the concepts are not the same. All new ventures are not entrepreneurial in nature. Entrepreneurial firms may begin at any size level, but key on growth over time. Some new small firms may grow, but many will remain small businesses for their organizational lifetimes.

The critical factor proposed here to distinguish entrepreneurs from nonentrepreneurial managers and, in particular, small business owners is innovation. The entrepreneur is characterized by a preference for creating activity, manifested by some innovative combination of resources for profit. Drawing further on the characteristics outlined in Table 1, it is suggested that analyses of prospective entrepreneurial characteristics examine such traits as need for achievement (perhaps more appropriately labeled goal-orientation), internal locus of control, need for independence, need for responsibility, and need for power. Although a risk taking propensity is mentioned frequently in the literature, Schumpeter noted that it is inherent in ownership rather than entrepreneurship. Further, Brockhaus (1980) supported Schumpeter with empirical results demonstrating that risk taking behavior cannot be used as a distinguishing characteristic of entrepreneurship.

From this analysis, it is suggested that many published studies may be misleading in their conclusions. Economic theorists propose that the entrepreneur is essential to economic development (Schumpeter, 1934; Williams, 1981). Yet studies of entrepreneurship neglect to distinguish adequately between entrepreneurs and other business managers, primarily small business owners. Erroneous descriptions of entrepreneurs can jeopardize investigations in a variety of ways. Specifically, analyses of how entrepreneurs make their fundamental contributions to economic development cannot draw sound conclusions if the case studies are not entrepreneurial.

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To guide future studies, the following definitions are proposed to distinguish among the entities discussed in the paper:

Small business venture: A small business venture is any business that is independently owned and operated, not dominant in its field, and does not engage in any new marketing or innovative practices.

Entrepreneurial venture: An entreprenuerial venture is one that engages in at least one of Schumpeter's four categories of behavior: that is, the principal goals of an entrepreneurial venture are profitability and growth and the business is characterized by innovative strategic practices.

Small business owner: A small business owner is an individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be the primary source of income and will consume the majority of one's time and resources. The owner perceives the business as an extension of his or her personality, intricately bound with family needs and desires.

Entrepreneur: An entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterized principally by innovative behavior and will employ strategic management practices in the business.

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