



Systemic and harmonious model of the entrepreneur

Modelo sistémico y armonioso del emprendedor

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ABSTRACT:

The modern theory of business economics is perceived by some scholars as an eclectic combination of different types of knowledge. The article offers a systemic look at the main provisions of this theory, solves a number of contradictions and contributes to a harmonious theory of entrepreneurship. For this, I used a variety of methods - a systemic approach, a dynamic approach, and a number of my own methods used to build a typology of entrepreneurial characteristics and entrepreneurial activity.

Keywords: properties of entrepreneur, trader, engineer, raider, inventor, schemer, alliance, willpower, instinct of a million-aire, accuracy, curiosity.

RESUMEN:

Algunos académicos perciben la teoría moderna de la economía empresarial como una combinación ecléctica de diferentes tipos de conocimiento. El artículo ofrece una mirada sistémica a las principales disposiciones de esta teoría, resuelve una serie de contradicciones y contribuye a una teoría armoniosa del emprendimiento. Para esto, utilicé una variedad de métodos: un enfoque sistémico, un enfoque dinámico y varios de mis propios métodos utilizados para construir una tipología de características empresariales y actividades empresariales.

Palabras clave: propiedades del empresario, comerciante, ingeniero, asaltante, inventor, intrigante, alianza, fuerza de voluntad, instinto de millonario, precisión, curiosidad.

1. Introduction

The economic theory of entrepreneurship has a long history and there is an extensive body of literature on entrepreneurship and entrepreneurs. It may seem that this theory is as harmonious as any other theory, for instance, in mathematics or physics. However, it is not so. A thorough study of classical literature and the works of modern economists based on it has clearly shown that the terms 'entrepreneurs' and 'entrepreneurial activity' are an eclectic set of contradictory definitions and conclusions.

This can be explained by the fact that an entrepreneur is a complex phenomenon for analysis. That is why researchers tend to focus on separate, individual properties of the entrepreneur rather than on the entrepreneur as such. The question why and how a person becomes a successful entrepreneur is still being debated in literature. Other disputable issues are the correlation between the entrepreneur's obvious desire for profit and, at the same time, for charity. Another topic for discussion is the correlation between seeking risks and building a sustainable business.

It is necessary to systematize the basic principles of the theory of entrepreneurship and to find an approach that would bring together the main provisions of the theory of entrepreneurship and would simultaneously remove the existing contradictions in it.

2. Current state of knowledge

The foundations of the modern theory of entrepreneurship were laid in the classical works on economic science. Sociologists proposed many provisions of this theory. Psychologists also contributed to the understanding of the essence of entrepreneurship and entrepreneurial activity. A complete review of the literature contributing to the development of the theory of entrepreneurship cannot be condensed to the format of the article. However, it is precisely the literature of the past decades that the contradictory and multidirectional conclusions and recommendations of modern scholars are based on. For instance, the entrepreneur's proneness to risk was described and analyzed by Cantillon, Ricardo, Mises, Hayek and Kirtsner. The same property of the entrepreneur was explored by Koh (Koh, 2019), Randerson, Bettinelli, Dossena, Fayolle (Randerson, 2015) and Spence, Frynas, Muthuri, Navare (Spence, 2018) and many others. In the 20th century, McClelland and Odiorne attempted to prove that the entrepreneur is not prone to risk-taking. Today, this view is shared by Chell, Wicklander, Sturman and Hoover (Chell, 2008).

It is a well-known fact that entrepreneurs use innovations to generate profit. This tendency was analyzed by Say, Marshall, Clark, Schumpeter and many modern re-searchers, for example, Bessant and Tidd (Bessant&Tidd 2007), Spulber (2014), Rat-ten, and Ferreira (Ratten&Ferreira, 2016).

However, some scholars, Gebreeyesus (Gebreeyesus, 2011) and Zgheib (Zgheib, 2017) among others argue that only entrepreneurs can understand the real value of an innovation and its potential for generating profit. Moreover, this unique ability singles the entrepreneur out from other business actors.

Man, Clark, Hayek, and Kirtsner argue that the entrepreneur possesses specific and comprehensive knowledge of the market, its actors and is fully aware of changes in the business environment. All this allows the entrepreneur to achieve a more remarkable success in business compared with other actors. This view is supported by Holcombe (2007), Karlsson, Johansson and Stough (2013).

Simon and Odiorne are of the opposite opinion. They argue that the behavior of entrepreneurs is not rational. Moreover, entrepreneurs do not even strive for being rational since human cognitive abilities - perception, memory, decision making - have their limits. This is compounded by the fact that, due to the irrational nature of the world in general, the actions of an entrepreneur cannot be reasonable and, therefore, specific knowledge is not required. There are many researchers sharing this point of view.

Richard H. Thaler, a Nobel prize-winner in economics, and his colleagues Cass R. Sunstein (Thaler et al., 2008) adhered to this point of view when developing the provisions of behavioral economics.

The question how an ordinary person becomes an entrepreneur is still being discussed. Some scientists believe that entrepreneurs are born rather than made. Others believe that entrepreneurs gradually develop their abilities under the influence of a whole range of factors. This disputable question was addressed by Welch (2010), Bolton and Thompson (2013), and Zapletal (2018). But neither these nor other scholars have found a precise and reasonable answer to this question.

3. Development

Weber, Zombart, Troelch and Braudel convincingly proved that non-economic factors play a decisive role in the formation and development of an entrepreneurial activity. According to the authors, these factors include ethics, religion, the way of organizing religious communities, and some others. The experience of the USSR shows that the political factor also belongs to this group. It means that the natural abilities of an entrepreneur can only be revealed and developed under certain external and favourable conditions.

Non-economic factors cannot force a person who does not have any potential for entrepreneurship to get engaged in this activity. However, they create optimum conditions for the development of a natural propensity for entrepreneurship; these factors help to reveal this propensity, or vice versa - may hide it. Sombart called the combination of the factors favorable to the identification and development of entrepreneurial abilities 'an entrepreneurial spirit' (Sombart, 2018).

Entrepreneurial spirit is a special moral state of society. The bearer of this spirit is a person having special properties, which I call 'entrepreneurial substance'.

Generally speaking, a substance, if I approach this concept from a purely formal point of view, is what everything consists of. Entrepreneurial substance is formed by special qualities, or properties, which make an entrepreneur an entrepreneur. Entrepreneurial substance is composed of two elements: 1) entrepreneurial ability and 2) entrepreneurial power.

An ability is a certain potential for doing something. For example, many people have musical abilities. If a person develops them by practicing, then he or she will be able to become a musician. If these abilities are not developed, then a person will simply become a lover of music or will occasionally play a musical instrument for pleasure. Similarly, many people have entrepreneurial abilities. However, only those who can develop them and work continuously on them can become entrepreneurs. If a person fails to do this, then he will differ from other people by having certain business qualities. In other words, business qualities are unrealised entrepreneurial abilities. The entrepreneur develops his abilities with the help of entrepreneurial powers inherent in him - the instinct of a millionaire, will, accuracy, curiosity and responsibility.

In each entrepreneur, these forces are developed to a varying degree. This difference is a decisive factor in the formation of a particular business style, which in my previous publications was called a TERIS code of the entrepreneur. It shows the degree to which one or another property is typical of an entrepreneur.

I propose a typology of five fundamental properties:

- 1) T - Trader (businessman, merchant, dealer);
- 2) E - Engineer (engineer, financier);
- 3) R - Raider (conqueror, security guard, warrior);
- 4) I - Inventor (inventor, innovator);
- 5) S - Schemer (combinational player, communicator, organiser, lobbyist).

The properties of each type are inherent in every entrepreneur. However, in each individual, they are expressed to various degrees. Consequently, entrepreneurial styles also differ.

However, the entrepreneurial spirit in society and entrepreneurial abilities are necessary but not sufficient requirements for becoming a successful entrepreneur. A survey of more than 450 successful entrepreneurs, which I conducted, showed that there are five factors encouraging an entrepreneur to get engaged in an entrepreneurial activity: 1) an original business idea; 2) a pursuit of personal wealth; 3) hedonism; 4) patriotism and 5) a penchant for creation.

These five factors are sufficient for the entrepreneur to begin his entrepreneurial activity, although every entrepreneur has a different combination of these factors (reasons) for starting a business.

An entrepreneur cannot start a new business without an original business idea. However, a new business idea does not necessarily mean that an entrepreneur comes up with something completely new. He may develop someone else's idea or someone else's experience and use them in a way or in a field where they have not been used before. Therefore, every business idea is versatile and original.

Economic scholars have called striving for personal wealth 'avarice', without bothering themselves to answer the question as to what the goal of accumulating riches is. Striving and love for wealth is characteristic of not only entrepreneurs but also other businesspersons. An entrepreneur has a distinct motive for amassing riches: wealth gives more freedom in society as well as independence from many economic and social factors (Ponomarev, 2018).

At first glance, hedonism has little to do with the fact that entrepreneurs might work twenty-four hours a day at the start-up stage. There is, however, no contradiction. Entrepreneurs are hedonists eager to enjoy life. In their striving for freedom and independence, they act rationally: they defer fleeting joys of life to experience them full-scale in the future.

In his book National System of Political Economy, Friedrich List writes that entrepreneurs will not stop at high treason in their pursuit of wealth. He must have had a bad sample of entrepreneurs to make such a conclusion. History shows that entrepreneurs are zealous patriots. Most entrepreneurs are creators: new businesses strengthen local and national economies.

Economic theory holds that entrepreneurs employ hired labour and attract capital to set up a company and earn profits, which are in effect payment for entrepreneurial activities. This vision, however, is overly simplified.

Driven by the above motives, entrepreneurs develop a business idea and start putting it into action. To this end, they use owned and borrowed resources. Economic theory focuses primarily on two types of resources: labour and capital. Again, this view of entrepreneurial resources is simplified. There is no established interpretation of the complex concept of capital structure. We will avoid simplifications and bring the issue of capital structure to the level of detail at which it is possible to understand how entrepreneurs use resources to create a business project. These resources comprise entrepreneurial capital. Our survey showed that entrepreneurs used five basic resources: 1) time (named the most important by 31% of the 486 respondents); 2) people (15%); 3) technology (16%); 4) finance (20%); 5) information (18%).

Therefore, entrepreneurial capital has five main components:

- A. Time
- B. People
- C. Technology
- D. Finance
- E. Information

The efficiency of entrepreneurial activities depends on the ability of entrepreneurs to use the five main powers in managing the five resources. Entrepreneurs engage the five powers and employ the five resources. These powers and resources translate into varying degrees of business success. Entrepreneurs can be divided into groups based on the success criterion. They can be furthermore classified by business experience: some of them have just embarked on the journey of entrepreneurship, whereas others are seasoned businesspersons who have achieved certain success. This circumstance is reflected in the entrepreneurship pyramid model.

Earlier I proposed an entrepreneurial life cycle model. It includes five stages associated with the amount of earned and accumulated capital: the junior, the artisan, the emerging entrepreneur, the business owner, and the capitalist (Ponomarev, 2018).

Obviously, most entrepreneurs are juniors. They have recently started their business and rely on assistance from others. At this stage, entrepreneurs have small capitals and they are ready to take even undue risks. Such entrepreneurs are making their first timid steps in business. For many, these steps lead to failure, sometimes because of careless risky decisions. These people cease to be entrepreneurs.

Those who have overcome start-up problems achieved the first results in the form of profit and multiplied their capitals enter the artisan stage. During this phase, entrepreneurs do without external advice or support. They work twenty-four hours a day and demand the same from others. Having something to lose, these entrepreneurs abandon recklessness. Still, they continue to take risky decisions in search of quick profits. Those who succeed at this stage become emerging entrepreneurs. Those who lose this game leave the business community forever. Emerging entrepreneurs do not work themselves anymore. They focus their efforts on business administration. They manage their hard-earned capital and their employees, for whom they are responsible. Emerging entrepreneurs, therefore, prefer stability to risks. The environment, however, is never stable. There is competition. Emerging entrepreneurs are forced to take risky decisions, some of which lead to failure. Those who do not succeed go out of business.

The entrepreneurs who make the right decisions under risk reproduce capital and enter the realm of medium businesses. We call such entrepreneurs business owners. This stage is associated with business diversification. Entrepreneurs delegate administration to hired managers while focusing on finance and key performance indicators. They concentrate on strategy and entrust tactical and operative decisions to hired managers. Entrepreneurs at this stage of development are even less prone to risk. Risk-taking is limited to certain parts of their business only. Business owners take pleasure in decision-making under risk. If such entrepreneurs continue to multiply their capitals, they enter the final stage of the entrepreneurial life cycle: they become capitalists.

Having reached the final stage, entrepreneurs do not create new production facilities. The entrepreneurial activities of capitalists focus on investing the accumulated capital into the most lucrative projects. Each of their decisions is worth hundreds of thousands or even millions of dollars. Capitalists tend to avoid risky decisions. Naturally, not every business owner reaches this highest level of the entrepreneurial life cycle. Only a few chosen ones do.

Thus, at the base of the pyramid are millions of juniors and, at its top, hundreds of capitalists.

4. Conclusions

Not everyone is born with what it takes to become an entrepreneur. People without innate entrepreneurial abilities will never become entrepreneurs. Only those who are born having an entrepreneurial substance can become entrepreneurs. This substance, however, does not guarantee that a person will embark on the journey of entrepreneurship. For this to happen, society should have an 'entrepreneurial spirit' that encourages the development of entrepreneurial abilities from early childhood. Even if there is no entrepreneurial spirit in society and natural-born entrepreneurs cannot develop their ability, their business attitudes do not go unnoticed. Thus, the nature vs nurture dilemma relative to entrepreneurship can be resolved as follows: people are born having entrepreneurial abilities but they become entrepreneurs provided there is favourable environment and they take efforts to develop their innate abilities. Business attitudes demonstrated by might-have-been entrepreneurs prove that the latter have the millionaire instinct, that is, they can devise appropriate business strategies and tactics. Such people have the will to achieve their goals. They are curious and accurate in their dealings. They cannot, however, take responsibility for risky decisions. Their risk-taking ability remains untapped for some reasons. These conclusions give a clue to answering a major question of the contemporary theory of entrepreneurship, that is, whether entrepreneurs have the propensity to take risks. My answer to the question is negative. Entrepreneurs are not prone to risk. Unlike other participants in the market process, however, they are not afraid of taking risky decisions and assume responsibility for the consequences. The propensity for risk-taking is characteristic of the initial stage of entrepreneurial activities. The greater the capital accumulated over the years in business, the more successful (and less prone to risk) the entrepreneur is.

Entrepreneurs always seek profits; this is undeniable. They use profits to secure a better position in an unequal society. This way they gain new freedoms and independence for themselves and their families. Profit is a tool to achieve this objective. Having reached the top of the pyramid, that is, having become capitalists, entrepreneurs can 'relax' and become the hedonists they have always wanted to be.

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