

A CRITICAL STUDY OF JOSEPH A. SCHUMPETER'S INNOVATION THEORY OF ENTREPRENEURSHIP

¹Dr. C Shekhar Upadhyay.

²Dr. Priyanka Rawal.

^{1&2}Assistant Professor,

Jagran Lakecity Business School.

Jagran Lakecity University, Bhopal.

ABSTRACT

Entrepreneurship has become the backbone of any growing economy of the world, countries like India has much to offer and receive from this growth saga which is a fine synthesis of risk bearing and innovation in product offerings and services being catered to the market. India particularly has witnessed the growth in start ups in last 10 years which a compelling sign of entrepreneurial traits of country is on the upward trajectory. The growth saga is going to be the sum results or outcome of joint efforts from individual and system both. Today's nations of different level of development are mulling over the very seed of entrepreneurship and the basic mindset of those who might become an entrepreneurs. It is a topic of much debate and conversations all around the globe that, what are those parameters which serve as the milestone or cornerstone when it comes to encouraging entrepreneurship/entrepreneurs from the country. To add fuel into the fire, experts on entrepreneurship have proposed different approaches towards entrepreneurship. These approaches have been proposed by classical and modern experts of entrepreneurship alike. These approaches are collectively referred as Theories of entrepreneurship. These theories are an insightful attempt to rationalize and demystify the enigma of entrepreneurship development. One of the most prominent theorists among modern thinker is Joseph A Schumpeter; he is the one who practically and systematically both equated entrepreneurs with innovation. He is the one who made the clear distinction between who entrepreneurs should be and why he must be called innovator. The present paper is an attempt to further inquire and decode the vary dimensions of Schumpeter's theory and also to put the theory in present mold of market and economic conditions. This paper shall also encompass the logical and rational criticism of the theory of innovation.

Key word- Innovation, Entrepreneurs, Innovators, Entrepreneurship, Creativity.

INTRODUCTION- Entrepreneurship and innovation have become a term which is used interchangeably these days. Now, an entrepreneur has to be innovator before he assumes any other role (Managerial or operational). In a way, innovation and innovativeness and its quantum has become the real parameters of being an entrepreneur. This thought was almost absent from the historical or classical approaches/views/theories of entrepreneurship. The classical approach sees entrepreneurs as more inclined towards organizers cum managers of factors of production and doing things for his owner. This approach was prevalent in most of the last 1800s and early 1900s. The early experts like Richard Cantillon, JB Say, Mills, Adam Smith share almost the same views. In a way entrepreneurs are perceived as an organic extension of traditional businessmen. The entire understanding of entrepreneurs was established firmly, but the soul of entrepreneurs was missing as what actually means to be an entrepreneur. One political economist from Austria who later on became the professor of business at Harvard University USA was quite successful in catching the essence of entrepreneurship in a single word “Innovation” this path breaker and visionary was Joseph Alois Schumpeter (1883-1950). The theory which he proposed later became the epitome of further studies on entrepreneurship. “Schumpeter’s innovative model” as it later on popularized as has for the first time equated entrepreneurs to innovators and went on professing the contribution of innovative mindset of entrepreneurs. Where the classical experts were more focused on the traditional attributes in entrepreneurs, Schumpeter has shown the extremely different aspect of entrepreneurs which was never imagined before. The theory initially came in year 1949 and till date stands uncontested as no theory has been, literally unchallenged.

II. RESEARCH METHODOLOGY- The research methodology for the present paper is a mixture of empirical and descriptive methods of research. The idea is to critically judge this theory on the criteria of present day market/economic dynamics with special reference to developing nations like India where the opportunities in traditional business models have been shrinking. The present paper is based on qualitative research as data collection and evaluation of data shall be averted keeping in mind the very nature of research purpose. Although, the necessary information and other relevant data has been derived from various sources to make the argument for the theory and against. Some of the literature review has been added to make the work more contemporary. The sources of information for the research work is as following-

1. Various published reports on startups and entrepreneurship by government and other organizations
2. Various research papers on entrepreneurship and start ups
3. Studies on various aspects of entrepreneurship and its correlation with innovation
4. Any other information available on the related to topic of the research
5. Experts’ comments and news articles related to innovation and its role in entrepreneurial development.

III.OBJECTIVE OF STUDY- The objectives of any study makes it more interesting and up to the point, as these objectives functions as the aspired results as well. The present study also has various objectives which in during the study should evolve and aptly meet as well. The study has the following objectives-

1. To study and understand the “Theory of Innovation” by Joseph A Schumpeter.
2. To draw the applicability of theory in India as well as similar context.
3. To analyze various takeaways from the theory of innovation
4. To critically evaluate the theory of innovation.

IV.LITERATURE REVIEW-

Various authors and exporters have spoken on the topic of innovation and its varuosu dimensions, they all have agreed on its various implications as well. *Kenneth Michael Kjos* (2013) in his study indicate that technology has a minor effect on service innovation regardless of developmental stage. People, customer experiences, value, ideology of management and/or entrepreneurs and management support for learning from failure have a major effect on service innovation regardless of developmental stage. It becomes very clear that failure in innovation has a huge impact upon innovation which is coming in near future. *Pontus Braunerhjelm* (2010) has found that, the micro economic origin of growth and the macroeconomic outcome is still too rudimentary model led to grasp the full width of these complex and intersecting forces Growth can basically be attributed the following fundamental forces: an increase in factors of production improvements in the efficiency of allocation across economic activities, knowledge and the rate of innovation. Given full employment and efficient allocation, growth is thus driven by knowledge accumulation and innovation. In his views the growth beyond a particular point has to be contributed to rate of innovation and newer product/process inventions. *Sanjay Manocha* (2012) underlines the relationship between innovation and entrepreneurship as Entrepreneurship can be viewed as a creative and innovative response to the environment and an ability to recognize, initiate and exploit an economic opportunity. According to him an entrepreneur is an innovator who introduces something new in an economy. Entrepreneurship is doing things that are generally not done in the ordinary course of business. He has defined innovation also as innovation may be in; introducing a new manufacturing process that has not yet been tested and commercially exploited, introduction of a new product with which the customers are not familiar or introducing a new quality in an existing product, locating a new source of raw material or semi finished product that was not exploited earlier, opening a new market, hitherto unexploited, where the company products were not sold earlier, developing a new combination of means of production. A traditional businessman working in a routine manner is not entrepreneurial. In a way he has established innovation as the prime function of entrepreneurship. *Hemantkumar P. Bulsara Jyoti Chandwani*

Shailesh Gandhi (2013) have inquired about the relationship between innovation and entrepreneurship with special reference to women entrepreneurs. They collectively found that, an essential element for innovation is its application in a commercially successful way. Innovation has punctuated and changed human history (consider the development of electricity, steam engines, motor vehicles etc.). Women entrepreneurs are reported to be growing at a faster rate than the economy as a whole in several countries. Their contribution could become even more significant if their potential is fully tapped and it is possible only when various obstacles and restrictions are removed. India stands as one of the most developing countries across the world, the economist to a great extent, have realized the potentialities of women's.

V.INTRODUCTION TO SCHUMPETER'S THEORY OF INNOVATION- The concept of entrepreneurship has been seen from various dimension and outlooks. In a way these outlooks and approaches are referred as theory of entrepreneurship, these theories are proposed by various thinker and experts who have seen or witnessed only a singular contributory factor of entrepreneurs. The theories of entrepreneurship have been classified into three categories; economic theories, sociological theory and psychological theory. The innovation theory has been proposed by Schumpeter belongs to economic theories of entrepreneurship origin. The theory which was proposed in 1932 has given a very fresh and unseen aspect of entrepreneurship and core reasons or characteristic of entrepreneurs. This concept is very contrary to classical views of entrepreneurship, which see entrepreneurs as organizers and managers who are managing for someone else and getting paid by owners. After much deliberation and thinking, Schumpeter has come to the conclusion that innovation is the factor which sets a common risk taker from entrepreneurs as according to Schumpeter entrepreneurs is someone who "Creatively destructs" or one who is "Creative destructor"

¹WHAT IS "CREATIVE DESTRUCTION"-

The term "Creative destruction" has been professed and coined by Joseph Schumpeter in his neo classical book on political economics titled "Capitalism, Socialism and Democracy" in 1942. In the book he has explained the concept of creative destruction as the "Process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one." The sum total of creative destruction is innovation where resources are put to create something new and innovative for the market/customers. The very essence of innovation is creative destruction, according to Schumpeter an entrepreneur is one who creatively destructs; he does not include management of factors/resources or organization of factors of resources as the heart and soul of entrepreneur.

WHAT IS INNOVATION-

Innovation can be defined simply as a "new idea, device or method". However, innovation is often also viewed as the application of better solutions that meet new requirements, unarticulated needs, or existing market needs. This is accomplished through more-effective products, processes, services, technologies, or business models that are readily available to markets, governments and society. The term "innovation" can be defined as something original and more effective and, as a consequence, new, that "breaks into" the market or society.

²Schumpeter has identified innovation as the "critical dimension of economic change". He argued that economic change revolves around innovation, entrepreneurial activities, and market power it is something which is very important from market dimension's point of view. He sought to prove that only innovation-originated market power can provide better results keep firms at a comfortable position than old arrangement or invisible element like price competition. He argued that technological innovation often creates temporary monopolies, allowing abnormal profits that would soon be competed away by rivals and imitators. These temporary monopolies were necessary to provide the incentive for firms to develop new products and processes, it simply means the innovation is not a destination but a journey, it is a continuous process. According to Schumpeter firm's investment in innovation is the best investment it can make to lead or monopolize market for certain amount of time.

VI. THEORY OF INNOVATION DECODED- According to Joseph A. Schumpeter an innovation is nothing but "new combination of factor of production" which necessarily breaks the monotonous cycle of economic and market activities. According to him entrepreneurs is one who breaks the stationary circular flow of activities and market supply and creatively destructs. Only this process has the maximum level of risk which is not bear by traditional businessmen. According to him entrepreneur is one who is engage in creative activity. The innovator who brings/commercializes new products and services is known as entrepreneur; he keeps on looking for new ways and new combination to use the factors of production and focuses on novelty in market offerings. Society owns a lot to these innovators, who assume risks and uncertainty to provide newer/fresher and ground breaking products. According to Schumpeter the basic nature and scope of innovation by entrepreneurs are not necessarily means introduction of newer products, but sometimes it means more than that. According to him the nature and scope includes-

1. The introduction of a new product with which consumers are not yet familiar or introduction of a new quality/modification of an existing product which changes the product or its usability for customers.

2. The introduction of new ways of production that is not yet used/experienced in the branch of manufacture concerned.
3. The opening of new market either by developing a brand new market or revamping the old market with huge potential.
4. Developing a new source of supply of raw material
5. The carrying out of the new organization structure of any industry.

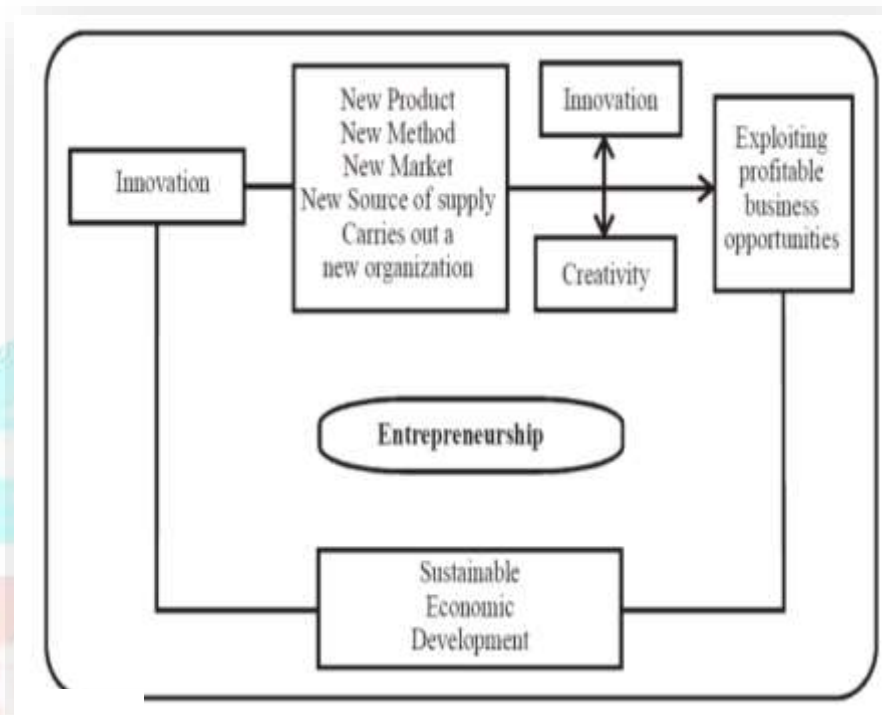


Figure 1.1: Innovation Theory of Entrepreneurship

Very interestingly Schumpeter also draws the differences between innovator and inventor, to a laymen these term may sound similar but not to Schumpeter. According to him inventor is one who discovers the new way of doing something or discovers a new product techniques /application of factor of production in new way. On the other hands, the innovator is one who uses those discoveries and creates something new product/services. An inventor is concerned with the technicality of the product and innovator is more concerned with economic and tangible product. According to Schumpeter in some cases inventor might turn out to be an innovator. As innovator is more valuable as he does not only creates/discovers something (inventor) but uses that novelty to derive commercial value from it. In a very succinct manner, inventors are those who discover new ways and innovator are who apply those new ways for the first time and yield first mover advantage from the market. It is risky to use or rely on something which is never tried before and this risk is shouldered by entrepreneurs hence innovation becomes their primary function and trait

VILSCHUMPETER AND TRAITS OF ENTREPRENEURS- The innovation theory of entrepreneurship has a lot offer in terms of deciding the various traits of entrepreneurs. Since Schumpeter puts a lot of focus on innovation and creative destruction, the question rises, is what other aspects of personality entrepreneurs should have a part from innovation? The answer is-

1. Energy and will to apply newer methods/process in production of new product or looking or newer markets.
2. Ability and will to withstand the sharp criticism of society of being out of the league.
3. Imagination and foresight which enable them to see the unseen future and rely on their innovation.
4. Ability to accept the failure and move on to the next big thing (Innovation)
5. They never shy away from taking the first step towards trusting the innovation and then they make others believe in it too.

VILSCHUMPETER'S THEORY AND ITS APPLICABILITY IN INDIA- The theory of innovation as explained and exemplified above draws a very clear picture of innovation and entrepreneurship. This theory has any implication in current scenario in India or not is something which is very fruitful thing to ask. As a matter of fact, the very definitions of entrepreneurship and entrepreneurs have been revised in last 50 years or so. According to the new order, innovation and aptitude towards innovation is entrepreneurship alone. India has being witnessing the wave of change, a sense of entrepreneurial excellence and attribution towards being an entrepreneur. Last 10 years or so have seen the mass migration, a kind of exodus towards innovation and newer ways of combining and composing factors of productions. Recent examples are OYO, OLA Cabs, Zomato, Zivame, Flipkart, Snapdeal, and Redbus are those shining examples which underlines and justify or fall into the category of innovations as far as Schumpeter is concerned. It is not that India did not have entrepreneurs before, but according to the innovation's parameter now India is fast becoming the mother hub for the innovation and young, energetic entrepreneurs are converting those innovation into more feasible, tangible business component (either Supply, market, product) and founding start ups to cater the newly found market with their innovative product. Even the government of India also has defined start ups as business units which are investing and selling "unique/innovative" product in market. As far as innovation theory is concerned, India is the best example of implication of this innovation theory, as entrepreneurs are constantly innovating and looking for newer combination of factors of production and catering new market segment in an entirely new manner using innovative organization structures while using new channels of distribution. In a succinct manner innovative entrepreneurship/entrepreneurs are more visible in India than ever before and it makes the theory more relevant in Indian and alike scenarios.

IX.CRITICISM OF SCHUMPETER'S INNOVATIVE THEORY- Despite of being one of the most popular and most application driven theory, even this has been a subject to a wide and intense center of critics' focus. There has been a sharp criticism of Schumpeter's theory on various grounds. Though the criticism is not very decisive but there are few dimensions which this theory does not dwell or throw light properly or in a way completely undermines. According to Schumpeter the creative or innovating entrepreneur only centers around innovation, the critics disapprove this as the only decisive traits/function of entrepreneurs. Some of the common criticism received by this theory is-

1. This theory only focuses upon innovation function of entrepreneurs and does not talk about other important and equally critical aspects of entrepreneurs like organization and management skills.
2. The theory does not up holds the concept of Risk bearing as intensely as it does the idea of innovation. It looks like that innovation comes first then risk bearing, but according to several experts entrepreneurship is all about risk bearing and assessing uncertainties and devising strategies to avert their impact.
3. More surprisingly this theory completely undermines or distinctly ignores the classical traits of entrepreneurship where he assembles and uses factors of production in creating a tangible product or services. According to this theory only innovators are true entrepreneurs but what about traditional business models and traditional approach towards wealth creation.

X.CONCLUSION AND MAJOR TAKEAWAYS (FINDINGS) - The theory of innovation is the most important economic theory which deals with the origin of entrepreneurship in countries like India where economy is heavily depended on agrarian sector and industrialization is in its developing stage. Here governments are supposed to encourage research and development driven approaches and products which are much more innovative and based on cutting edge technology. Presently all the innovations are technology based, it presses for a viable and reliable information technological infrastructure. Despite of being sharply criticized, theory of innovation holds a lot of substance when it comes to differentiate between a traditional business houses and entrepreneurship. Peter F Drucker has expressed his view regarding this approach as "Innovation, indeed creates a resource. It endows it with economic value." According to Drucker innovation is something which is the only trait of entrepreneurs must have. He has spoken against of critics and upholds the views of his predecessor. According to a very common approach any new idea will inherently include risks and uncertainties and if one is moving with it, he or she is simply shouldering the risk. So in a very subtle way Schumpeter has actually undertaken risk factor within the purview innovation in contrast with critics. His views are particularly relevant to developing countries and low industrialized nations where innovations needed to be encouraged and promoted as mean of improving the conditions of living and employment. The transformation

of an agrarian economy into an industrial economy required a great deal of initiative and changes on the part of businessmen and managers becoming more and more entrepreneurs and that to innovator entrepreneurs. Innovation must be visible in any of the five sectors mentioned by Schumpeter. It must be noted that the innovator entrepreneurs have actually contributed beyond the imagination in the growth and stability of capitalism and have pushed the economic development upwards. The research paper has gone deep into the very essence of innovation theory of Schumpeter. It has understood the prime motive and trait of an entrepreneur and what make him/her distinct then the traditional businessmen doing traditional business. In a way the present theory is the most important indicator of entrepreneurship and its changed approach. It connects entrepreneurship with risk bearing through innovation and innovation are not confined to product only but extended to various other areas as well.

The paper also has seen the very prevalent criticism of the theory and its major impacts on various rising nations like India and how this theory is actually shaping the new breed of entrepreneurs who are innovating and founding startups and exploring literally new markets with their innovating approach in product/process/distribution/organization structure.

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