

## Entrepreneurship as a Value for Innovation and Knowledge Creation

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**Abstract:** Since antiquity, humanity has evolved thanks mainly to the substitution of work for tools. Changes entail crises and do not occur in an orderly and synchronized way. Joseph Schumpeter called this as the Cycle of Creative Destruction, in which “*economic structure is unceasingly transformed from the inside out, incessantly destroying the former and incessantly creating a new one*” as he says in *Capitalism, Socialism, and Democracy* (1961). Schumpeter's ideas on capitalism, entrepreneurship and innovation continue to resonate with students, businessmen and women. This Schumpeter' view is now corroborated by Nonaka and Takeuchi (1997), when they qualify an organizational leader as someone that can create knowledge as “*an internal entrepreneur with a strong adventurous spirit*”. Organizational knowledge, once entangled in Research and Development (R&D) platforms, emerges fully empowered in new business models, products and service development, entering with all the glory in the “knowledge society”, not as a mere resource alongside the factors of production – land, capital and labour – but rather as the main resource, as Nonaka and Takeuchi (1997) point out. In the opinion of the Committee of the Regions – “Entrepreneurship 2020” Action Plan, published in the Official Journal of the European Union on 5 December 2013, in its recommendation “Promoting education and training in entrepreneurship” 60 stresses that “*Europe must present entrepreneurship to young people as a promising and professional choice, reviving entrepreneurship*” (PTC 356/72 Official Journal of the European Union 5/12/2013). Therefore, the objective of this study is based on the importance and role of the entrepreneur in the process of innovation and creation of organizational knowledge, as a factor promoting the economic and social development of a region.

**Key words:** entrepreneurship; innovation; knowledge

**JEL codes:** M2

### 1. Introduction

The importance and role of the entrepreneur in the process of innovation and creation of organizational knowledge, as a factor to promote economic and social development, whether in an organization, region or country, is summarized in Dolabela's speech (2008, p. 24), when the author declares that “*entrepreneurship is the main factor of economic and social development of a country*”. He goes on saying that to identify opportunities, such as grabbing and seeking resources to turn them into a profitable business is the entrepreneurial role, always focused on the study to skills and abilities development related to the creation of a technical, scientific and business project.

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At the threshold of the twentieth century, the economist Joseph A. Schumpeter introduced a new vision of economic development and innovation. In his theory, he highlighted the dynamic model of the economy, in which the transformations that generate economic development occur. Schumpeter devoted his work to the important role of the entrepreneur in the innovation process, popularizing the concept of “Entrepreneurship” and composing one of the factors of the economic foundation trilogy cited in the Creative Destruction theory: technological innovations, bank credit and the innovative businessman (Schumpeter, 1997).

In an interview to *Época Negócios* magazine, Thomas K. McCraw, Harvard Business School professor, on July 4, 2007, said: “I think Schumpeter is the most penetrating analyst of capitalism who ever lived. He saw things other people didn’t see”. In the same interview he exposes Schumpeter’s visionary attitudes. During the Great Depression, in 1930, Schumpeter (cite in MacCraw, 2007) wrote: “Without innovation, there are no entrepreneurs, without entrepreneurship, capitalism doesn’t generate return, and neither there is nothing that can drive it.” McCraw clearly argues that the development of Schumpeter’s ideas concerns to the absolute inexorability of creative destruction and entrepreneurship and, in a free society, these two things never end. He goes on his defense of Schumpeter’s speech by stating that companies must try all the time to “stand firm on the ground that insists on slipping under them”.

“We live the end of the future,” said Bauman (2004), in an interview to *Época Negócios* magazine. According to Bauman, through all the modern era, our ancestors lived and acted toward the future. They judged their accomplishments virtue by the growing (genuine or supposed) proximity to a final line, the society model they wanted to establish. The vision of the future guided the present. Our contemporaries live without this future, says Bauman: “We have been repelled by the shortcuts of everyday life.”

Bauman (2009, p. 7), the preface in his book *Liquid Modernity*, points out that the solid modernity era is over, “this is the moment of all markets to deregulation, flexibilization and liberation. There are no stable nor predetermined references in this privatized version of modernity”.

In an interview to *MG Magazine* (February 09, 2014), Bauman names the beginning of modernity on November first, 1755, when a great tragedy occurred in Lisbon, Portugal: an earthquake that annihilated the city, followed by a fire that destroyed what was left and, soon after, a tsunami that carried the rest to the sea. According to the thinker this was a catastrophe not only material, but also intellectual and that, he stated: “*The world has to be under human direction*” (Bauman, 2014, s/p).

Peter Ferdinand Drucker, considered by many to be the “father of modern management,” describes the entrepreneur as one who seizes opportunities to create change and should not be constrained by his own personal and intellectual talents to undertake entrepreneurship, but value external resources, valuing the interdisciplinarity of knowledge and experience to achieve their goals. After Drucker's studies, entrepreneurship began to be seen as something that can be taught to people and not as a gift or an innate competence of the individual (Drucker, 1987).

The aim of this paper is to describe and analyze, in the light of the literature, the importance of innovative entrepreneurship for knowledge creation in organizations. Thus, the methodology applied followed the principles of bibliographic research, which according to Gil (2002, p. 44) “is developed based on material already prepared, consisting mainly of books and scientific articles”. In view of the above, basic activities of identification, compilation and registration of information sources were developed, based on the author's consultation bases related to the theme.

## 2. Entrepreneurial Management and Innovation

Danneels (2002) points out that “the need for innovation and organizational renewal has been recognized not only to withstand the effects of creative destruction but also for creation.” The author explains that the skills needed for innovation can be sourced and built with the use of resources from various locations and by different competence holders — thus in a context of diversity and openness.

From this perspective, organizational renewal involves building and broadening organizational competencies over time, often involving a change in the organization's product market domain (Floyd & Lane, 2000, *apud* Danneels, 2002).

Peter Drucker in his book “Innovation and Entrepreneurship — Practice and Principles” (1987) presents Entrepreneurial Management as a management of resources, systematic, organized and deliberate from the consolidation of entrepreneurship. He calls Entrepreneurial Management different from the traditional management culture of large companies and bureaucratized organizations. Endorsing this idea, Dolabela (2008, p. 49) states that “the culture of big business predominates in Brazilian education, there is no habit of approaching small business. Business courses, with rare exceptions, focus on managing large companies”.

Drucker continues to underline Entrepreneurial Management’s commitment to Entrepreneurial Strategy when he states: “Just as an enterprise requires entrepreneurial management, the enterprise also requires external market practices and guidelines.” This, he says, requires an innovative strategy. This statement strengthens the author’s position to allow contact between small business and the external environment, including at the strategic level, as a result, the success or failure of a business, depending on the competent management of external factors.

Drucker’s Entrepreneurial Society is a society endowed with some characteristics: innovation and stable and continuous undertakings; Executives make innovation and entrepreneurship an activity with high achievement potential and managerial competence.

The relationship innovation-competence-achievement is echoed in the studies by Henderson and Clark (1990) where they demonstrate in their discourses that each type of innovation requires a specific form of knowledge. Thus, it is up to the company to evaluate its internal and external competences to outline the best way to follow in the creation of organizational knowledge. In this line of thought Nonaka and Takeuchi (2008, p. 71) state that the role of the organization in the process of creating organizational knowledge is to promote the appropriate context to facilitate group activities as well as the creation and accumulation of knowledge even as individual level.

## 3. Organization Knowledge Creation

Knowledge is created through interactions between human beings and their environment. This dynamic is understood through the studies by Giddens *apud* Nonaka et al. (2008, p. 96), when it explains that “the environment influences people’s points of view and actions. Conversely, people’s views and actions shape the environment. In other words we are part of the environment and the environment is part of us. Surrounding resources and opportunities form our daily actions, and our actions create a social reality”. The authors go on to state that people perform their actions with “practical awareness” and “discursive awareness” in their daily lives. Discursive awareness allows them to rationalize their actions and can be thought of as a level of knowledge. Practical awareness refers to the level of knowledge at which people really do not think which means, they know more than they can say. Nonaka et al. (2008, p. 96) find that tacit knowledge is similar to practical awareness and

explicit knowledge to discursive awareness.

Following this perspective of understanding, Nonaka et al. (2001, p. 14) state that understanding the organization of knowledge within organizations goes through the processes of problem creation and definition, development and applicability of new knowledge to solve problems. In this context, organizations constantly create knowledge through their members' social interactions within a specific operating context.

Although much has been written about the importance of knowledge in management, little attention has been paid to how knowledge is created and how the process of creation is managed (Nonaka & Takeuchi, 2009, p. 57), the authors constituted two dimensions of the knowledge creation: epistemological and ontological, and in the ontological dimension knowledge is created by individuals. They also add that an organization cannot create knowledge without individuals, this dimension is understood as a process that “organizationally” amplifies the created knowledge and crystallizes it as part of the organization’s knowledge network.

As for the epistemological dimension the authors resort to the distinction created by Michael Polanyi (1966) between tacit and explicit knowledge. Being tacit knowledge deeply rooted in action, it is personal, context-specific, routine procedures, commitment, ideals, values, and emotion. Therefore it is difficult to formalize and communicate.

Explicit or codified knowledge, according to the author, is transferable in formal language, systematized and shared in the form of data, scientific formulas, specifications, manuals, etc. Explicit knowledge is possible to be stored and transmitted.

According to Nonaka and Takeuchi (1997, p. 96), the process of creating organizational knowledge begins with sharing tacit knowledge, which roughly corresponds to socialization, because initially the rich and untapped knowledge that inhabits individuals needs to be amplified within the organization.

In the second phase, shared tacit knowledge is converted into explicit knowledge in the form of a new concept, a process similar to externalization.

The concept created needs to be justified in the third phase, in which the organization determines whether the new concept is really worth pursuing.

In the fourth phase, given the green light, the concepts are converted into an archetype, which can take the form of a prototype or operating mechanism (a new company value, an innovative management system or a new organizational structure). The fifth and final phase broadens the knowledge created, which the authors call “cross-leveling of knowledge”.

These external components include customers, affiliate companies, universities, and distributors. As shows Figure 1.

Nonaka and Takeuchi (1997, p. 97) explain that organization alone does not create knowledge. They go on to state that the tacit knowledge held by individuals is the basis of the creation of organizational knowledge, and it is natural to start the process by focusing on the tacit process, as this is the rich source of new knowledge. Therefore, the sharing of tacit knowledge among various individuals with different histories, perspectives and motivations becomes the critical stage for the creation of organizational knowledge. It is further stressed that the emotions, feelings and mental models of individuals must be shared to enable the development of mutual trust. Successful sharing requires a “field” in which individuals can interact with one another through personal dialogues, sharing experiences, where they can synchronize their body and mental rhythms.

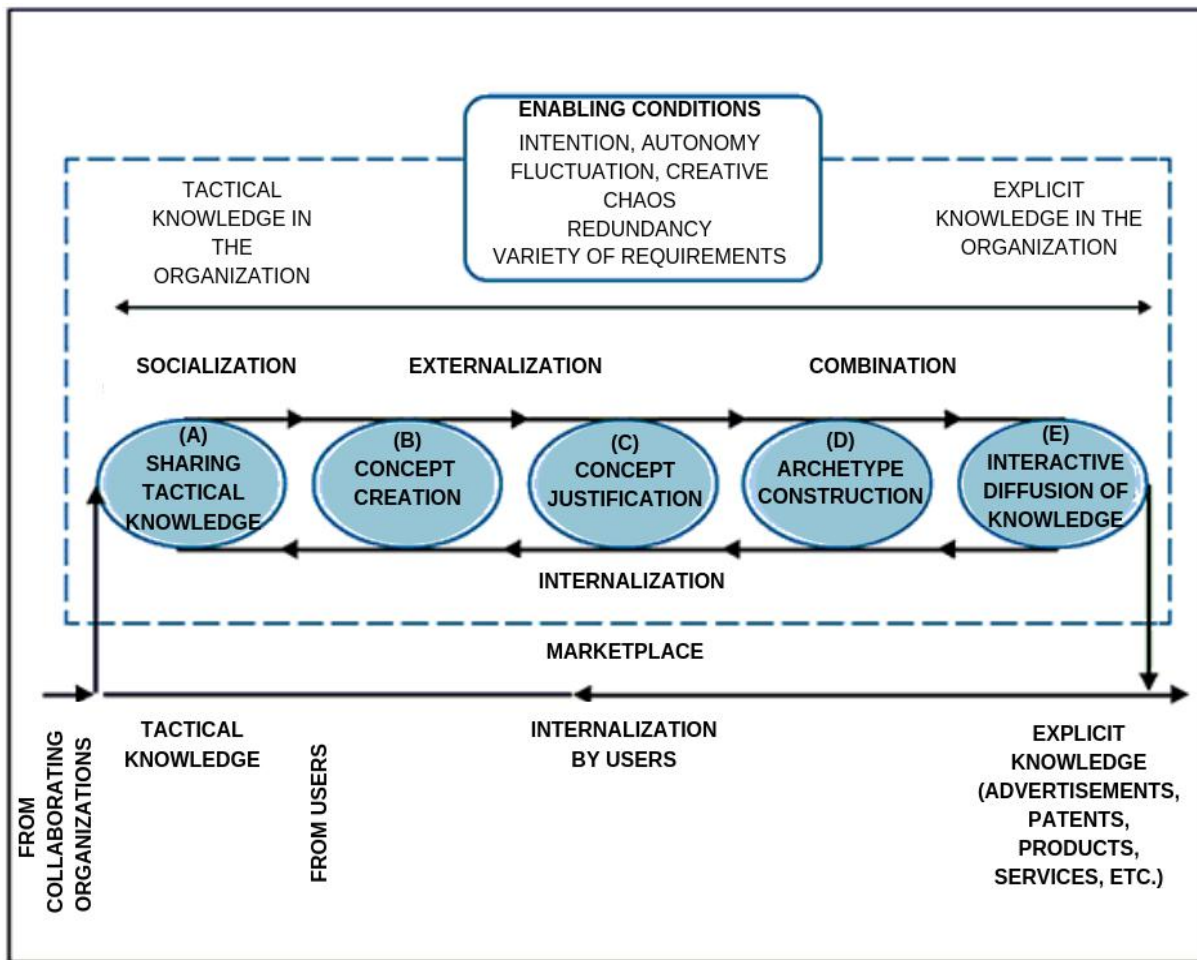


Figure 1 Five-Phase Model of the Knowledge Creation Process

Source: Nonaka and Takeuchi (1997)

The concept of field of interaction about conditions and particularities peculiar to each nature, according to the place of development and the mental model of its owners, for the purpose of knowledge creation, is designated by Nonaka and Konno (1998), by the name of *Ba*.

#### 4. Final Considerations

From this study on entrepreneurship as a value for innovation and knowledge creation it was possible to establish some concepts that can align with this statement. Thus, it is understood that:

- The entrepreneurial company moves through its focus on innovation. The generating factor of this process is the entrepreneur;
- Entrepreneurship is a factor that promotes economic and social development, composing one of the factors of economic foundation;
- Entrepreneurship can be learned;
- Entrepreneurial management is systematic, organized and deliberate from the consolidation of entrepreneurship;

- The Entrepreneurial Society has some peculiarities: innovation and entrepreneurship are normal, stable and continuous, fundamentally entrepreneurial, with a high potential for achievement and administrative competence.

Taking this work as a basis, a proposal for future studies would be a thorough understanding of the dynamics of knowledge sharing processes with a view to creating organizational knowledge, having as a purpose the understanding how organizations could broaden their capacities to create knowledge as competitive advantage in order to achieve its objectives and organizational strategies, as well as to respond to different market segments with efficiency and sustainability.

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