

# Differentiating Entrepreneurs from Small Business Owners: A Conceptualization\*

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## Abstract

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

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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 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?