American Journal of Economics and Business Management
Vol. 9 Issue 4 | pp. 690-697 | ISSN: 2576-5973
Available online @ https://www.globalresearchnetwork.us/index.php/ajebm

Article

Analyzing Entrepreneurial Activity Through Theoretical Approaches

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Abstract: This research paper analyzes the opinions and theoretical approaches of a number of scholars who have made a significant contribution to the concept of entrepreneurship. In the process of this analysis, it can be concluded that the approaches of each of the economists who conducted research in this area are reasonable on a certain basis. Also, through this research, it is possible to learn how and by whom the initial and modern theoretical approaches to entrepreneurship were formed. It should be noted that, despite the fact that many researchers are conducting research in this area, the full content and essence of the concept of entrepreneurship has not yet been described, because entrepreneurship is a very broad field.

Keywords: Entrepreneurship, Entrepreneurship Theory, Entrepreneurial Ecosystem, Innovation, Innovator, Risk.

Citation: Qurbonbekovich N. Q. Analyzing Entrepreneurial Activity Through Theoretical Approaches. American Journal of Economics and Business Management 2026, 9(4), 690-697.

Received: 17th Jan 2026
Revised: 27th Feb 2026
Accepted: 21st Mar 2026
Published: 23rd Apr 2026

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1. Introduction

The conceptualization of entrepreneurship, while often closely linked to economics, encompasses a diverse landscape characterized by diverse definitions and ongoing scholarly debates [1]. Entrepreneurship is a multifaceted and complex area of economics that has been the subject of extensive scholarly research. Scholars in this field have long attempted to uncover the diverse dimensions of successful entrepreneurs, from the individual characteristics and motivations of successful entrepreneurs to the broader social and economic consequences of their activities. Entrepreneurship has been characterized from a variety of perspectives, including economic, social, cognitive, and behavioral, each of which provides unique insights into the motivations and outcomes of this dynamic process [2]. One of the fundamental aspects of entrepreneurship is the importance of resilience and its interaction with the possibility of entrepreneurial development, and entrepreneurial resilience, which should include the ability to adapt to changing conditions, is recognized as a crucial factor in the sustainable implementation of new initiatives. Scholars have identified various elements that can ensure entrepreneurial resilience, such as personal characteristics, coping mechanisms, and environmental factors [3].

Literature Review

This research work critically examines important and popular theoretical constructs proposed to represent and explain entrepreneurial activity, including the study of the theoretical foundations of entrepreneurship and their institutional impact. Various views have been expressed on the theoretical foundations of entrepreneurship, including

Richard Cantillon, who first introduced the term "Entrepreneurship" into science, according to whom an entrepreneur is a person operating under risk, the amount of whose income is uncertain, and the costs are known [4]. According to the first theorist of entrepreneurship, the famous French economist Jean-Baptiste Say, an entrepreneur is a person who directs resources to more productive areas and combines the factors of production [5]. Also, according to the economist Joseph Schumpeter, who gave the most definitions of entrepreneurial activity in the 20th century, an entrepreneur is a driving force for economic development using innovation. In addition, according to the opinion of the American economist Frank Knight, who is famous for defining the difference between risk and uncertainty in economic decision-making, the entrepreneur's benefit is a reward for uncertainty that is impossible to calculate [6]. In the words of the economist Peter Drucker, who made a significant contribution to revealing the essence of modern entrepreneurship, entrepreneurship is the process of systematically searching for innovation and using it as an opportunity [7].

2. Methodology

In order to fill the theoretical gaps, this study, based on a multifaceted methodological approach, summarizes quantitative and qualitative data on the concept of entrepreneurial activity. In addition to simple correlational studies, this research work is aimed at revealing the complex interaction of feedback loops and emerging features within these systems. Also, one of the most important methods in conducting this study is a literature review, through which scientific research by various scholars is analyzed. Another important method is comparison, through which the opinions of different scientists are compared with each other. In addition, content and systematic approaches were widely used in conducting this research work.

3. Results and Discussion

As the field of entrepreneurship has developed, researchers have increasingly paid attention to the psychological foundations of entrepreneurial behavior[8]. The recognition that entrepreneurship is not only dependent on economic factors but also on the mental and emotional states of the individuals involved, has led to greater attention to the importance of psychological resilience in entrepreneurial success. The contextual factors that shape the entrepreneurial ecosystem are also an important area of study. Research has shown that it is important for entrepreneurs to understand the economic, social, and cultural aspects of the environment in which they operate, as these factors are likely to significantly impact the challenges, opportunities, and resources available to new businesses [9].

To understand the true nature of entrepreneurship, it is important to study the ideas and opinions of the early scholars who conducted research in this area. The first person to introduce the term entrepreneurship into science was the Irish-French economist Richard Cantillon (1680-1734), who is considered one of the founders of modern economics. His work "Essay on the Nature of General Trade" (1755) led to the introduction of entrepreneurship into science, which later influenced scientific schools from the physiocrats to Adam Smith and Schumpeter [10]. According to Cantillon, the distinctive feature of entrepreneurship is its ability to manage in uncertain situations, and unlike landowners or wage earners, the income of an entrepreneur is of a variable nature. In addition, Cantillon defined an entrepreneur as a person who "buys goods at certain prices and sells them at unknown prices" [11]. In a climate of risk and uncertainty, an entrepreneur is someone who assumes all the risks of market fluctuations by purchasing resources at current market prices in order to later sell them in finished form. Cantillon divides society into three main groups based on the source of income and the risk they face [12].

Table 1. "Classification of Economic Agents by Income Source and Risk Assumption".

№	Group	Source of income and level of risk assumption
1	Landowners	Those who live based on the rent of their land (fixed income).
2	Wage earners	Individuals who work for a fixed salary and do not bear market risk themselves.
3	Entrepreneurs	The "active element" of the economy that must pay predetermined prices for resources without knowing the future uncertain demand in advance.

Cantillon used entrepreneurship as a synonym for self-employment and gave a unique interpretation of entrepreneurial activity; his ideas have attracted some attention. His definition of entrepreneurship was very broad, including:

Table 2. "Cantillon's Classification of Entrepreneurs and Their Characteristics".

№	Types of entrepreneurs according to Cantillon	Description of entrepreneurs according to Cantillon
1	Standard traders	Wholesale and retail traders who buy and sell goods.
2	Producers	Farmers who pay a fixed rent to landowners but sell their produce at fluctuating market prices.
3	Marginal actors	He even classified "beggars and robbers" as entrepreneurs, since they face economic uncertainty and operate based on non-fixed incomes.

Cantillon, speaking of the importance of entrepreneurship in economic function and equilibrium, argued that the purposeful actions of entrepreneurs are essential for maintaining economic equilibrium and that they view "differences between supply and demand" as profit-making, and that this system is self-governing, since entrepreneurs adjust their actions based on price signals, and if they fail to forecast the market correctly, they may suffer losses or face a crisis. It is no exaggeration to conclude that Cantillon's legacy, the view of the entrepreneur as a market balancer, laid the foundation for subsequent theories in the Austrian School and the Chicago School of Economics [13].

Jean-Baptiste Say (1767–1832), a French economist, industrialist, and early theorist of entrepreneurship, is considered the founder of Say's Law of Markets, which established the idea that supply creates demand, and is considered a contributor to the growth of classical liberal economics in post-revolutionary France [14]. Jean-Baptiste Say expanded upon Richard Cantillon's definition of the word "entrepreneur" as a simple "risk taker" and expanded the theory of entrepreneurship. In his Treatise on Political Economy, Say defined the entrepreneur as the central coordinator and organizer of the economic system. Say conceptualized the entrepreneur as someone who brings together the factors of production, land, labor, and capital, to create value [15]. Say also defined the entrepreneur as a scientist, that is, a producer of knowledge and theory, and a worker, that is, a person who applies it to manual labor, and as an important link between all classes of producers and the consumer. While Say, like Cantillon, recognizes the entrepreneur as a risk-taking individual who can spend his own money, he emphasizes the need to assess demand and the judgment needed to ensure that production costs do not exceed final prices. He found that successful entrepreneurship requires the ability to plan, organize, control, and maintain economic dynamism, which is essential [16].

The theoretical foundations of the concept of entrepreneurship, which has long been the subject of scientific research, date back to the beginning of the 20th century. The field of entrepreneurship, although different in different countries, has achieved significant growth over the past 50 years, and the number of professional organizations, research centers, and academic journals devoted to its study is increasing [17]. One of the main requirements for individuals engaged in entrepreneurial activity is the pursuit of innovative opportunities, often in situations of uncertainty and risk.

One of the first to study the theory of entrepreneurship was Joseph Schumpeter, whose innovative work in the early 20th century laid the foundation for the modern understanding of entrepreneurship [18]. Schumpeter's concept of entrepreneurship as the "creative destruction" of existing economic structures has become the fundamental basis for research in the field of entrepreneurship, based on innovative combinations of resources.

In the words of Joseph Schumpeter, an entrepreneur should be evaluated not by a certain personality or ownership of capital, but by his task of implementing "new combinations" [19]. It is worth noting that Schumpeter identified five specific categories of new combinations that constitute innovation [20]:

Table 3. "Types of Innovation Combinations and Their Characteristics".

№	Combinations that constitute innovation	Characteristics
1	New products	Introduction of a new good with a new quality.
2	New production methods	Introduction of a new method of production that does not necessarily require a new scientific discovery.
3	New markets	Opening of a market that has not previously been entered by this branch of production.
4	New sources of supply	Discovery of new sources of semi-finished or raw materials.
5	New industrial organization	Creation of a new organization or restructuring of an industry (for example, creating or breaking a monopoly).

According to Schumpeter, the essence of capitalism is creative destruction. This process includes the following [21]:

Table 4. "Key Economic Processes in Schumpeter's Theory and Their Characteristics".

№	Processes	Characteristics
1	Industrial Mutation	Continuous destruction of old economic structures and simultaneous creation of new ones
2	Disequilibrium	Unlike neoclassical theories focused on market stability, Schumpeter viewed the entrepreneur as a "revolutionary" who creates disequilibrium by disrupting the plans of existing economic agents
3	Diffusion	If an entrepreneur's innovation generates profit, it eventually attracts "imitators" who sell similar products, leading to the "arbitrage" of the initial profit opportunity and the completion of the business cycle

Entrepreneurs have a unique worldview that distinguishes them from general business managers, as highlighted in Frank Knight's research on the importance of risk and uncertainty in entrepreneurship [22]. American economist Frank H. Knight (1885–1972), who is best known for his distinction between risk and uncertainty in economic decision-making, is a founding member of the University of Chicago economics tradition, whose ideas shaped 20th-century economic thinking about markets, entrepreneurship, and rational choice. Knight emphasized that the term "risk" is often used more broadly to encompass two distinct phenomena:

Table 5. “Risk and Uncertainty in Knight’s Theory: Definitions and Distinctions”.

№	Event	Description
1	Measurable risk	Refers to situations where the outcome is unknown, but the probability distribution of possible outcomes can be calculated (for example, using insurance or mathematical tools).
2	Genuine uncertainty	Also known as “Knightian uncertainty,” this refers to “unmeasurable” conditions in which probabilities cannot be assigned because the situation is unique or has no historical precedent.

According to Knight, the entrepreneur is a specific economic figure who takes on the burden of incalculable uncertainty. Knight's theory provides a functional explanation for why economic profit exists in a competitive market [23].

Table 6. “Reasons for the Existence of Economic Profit in Competitive Markets (Knight’s Perspective)”.

№	Reasons for the existence of economic profit in a competitive market	Description
1	Profit as a residual	Under perfect competition and measurable risk conditions, all costs (for example, insurance) are precisely calculated, leaving no room for “pure” profit.
2	Origin of profit	Market participants may generate economic profit because perfect competition mechanisms are unable to accurately evaluate situations when facing immeasurable uncertainty.
3	Reward for bearing uncertainty	As a result, profit is a residual income left for the entrepreneur after all contractual obligations (wages, rent, interest) are fulfilled, and it serves as a direct reward for the firm’s “true uncertainty.”

Unlike Jean-Baptiste Say, who viewed the entrepreneur as a coordinator, or Joseph Schumpeter, who described them as revolutionary innovators, Knight recognized the entrepreneur as a risk-taker and decision-maker who operates in a place where mathematical probability fails.

The study of entrepreneurship is related to the field of leadership, and researchers are studying the concept of "entrepreneurial leadership" as a key element of strategic management. This integration recognizes the inherent importance of "entrepreneurial thinking" in existing organizations, as opposed to viewing entrepreneurship as a phenomenon associated solely with the autonomous search for innovative opportunities.

Austrian-born American writer and educator Peter Ferdinand Drucker (1909–2005) is widely regarded as the father of modern management theory. His research established management as a systematic discipline and redefined the role of organizations in business, government, and society. In his 1985 book Innovation and Entrepreneurship, he argued that entrepreneurship is a systematic discipline that can be studied and managed. Drucker's most significant contribution is that he defined innovation as a functional mechanism of entrepreneurship, stating that "Innovation is a specific tool of entrepreneurship, a means of exploiting change as an opportunity for another business or service". He also defined "resources" as not existing in nature; they are created only when an entrepreneur finds a use for something and "gives it economic value". Drucker considered innovation to be essential, requiring "a purposeful and organized search for change". He identified seven sources of innovation opportunities that entrepreneurs should pursue.

Table 7. Internal sources (within Industry/Company).

№		Description
1	Unexpected	Unexpected successes, failures, or external events
2	Inconsistencies	The gap between “assumed reality” and actual reality
3	Process needs	Identification of weak links in existing processes and improving them
4	Market/Industry structure	Changes in the market that surprise established leaders

Table 8. External sources (Social/Intellectual environment).

№		Description
5	Demography	Changes in population size, age structure, or employment
6	Changes in perception	Changes in mood or meaning (for example, optimistic “glass half full” vs pessimistic “glass half empty” views on healthcare or the economy)
7	New knowledge	Both scientific and non-scientific discoveries

Drucker rejects psychological theories of the "entrepreneurial personality" and describes entrepreneurship as "a discipline that can be learned and applied in practice." While Frank Knight conceptualizes the entrepreneur as an individual operating in uncertain conditions, Drucker suggests that he should prioritize the possibility of minimizing risk through systematic analysis.

A critical discussion of the above points may lead us to accept some of Richard Cantillon's points that entrepreneurship, as defined in this research paper, can be used as a synonym for self-employment. However, it should not be fully supported that his view that the entrepreneur is an "active element" of the economy who is forced to pay fixed prices for resources without knowing in advance the exact nature of future demand. Indeed, if an entrepreneur does not take into account the fact that his profit is predetermined, or if he carries out entrepreneurial activities blindly, the probability of his failure is very high, and if the entrepreneur carries out his operations based on accurate calculations, he can minimize the level of his losses. In addition, he also recognized beggars as a specific group of entrepreneurs, taking into account that they also carry out their activities in conditions of uncertainty. This idea should not be supported to a certain extent. Because, in the activity of begging, there is a supply, but the question should be raised whether there is also a demand for it. In addition, the essence of entrepreneurial activity is that the goods produced by the entrepreneur are beneficial to both the producer and the consumer. In begging, there is no possibility for consumers to receive any goods in exchange for the money they have paid. Therefore, begging should not be included in entrepreneurial activity. According to Baptist Say, production (supply) automatically creates a corresponding level of demand. However, in real practice, there are cases of overproduction during economic crises. In addition, Say recognized the idea that markets regulate themselves. However, in real economic situations, unemployment, crises and imbalances occur, and in Keynesian terms, state intervention in the economy is important in such situations. As for Joseph Schumpeter, he called the entrepreneur an innovator. However, there is also an idea that an entrepreneur can manage an existing business and when he is finished with innovation, the entrepreneur becomes an ordinary manager, and this idea also has a certain flaw. Because entrepreneurial activity is a continuous process and if this nature is not taken into account, it is very likely to face a crisis. Frank Knight's linking entrepreneurship only with uncertainty is also somewhat flawed. Because entrepreneurship is not just about risk — it requires innovation, management, and strategy.

4. Conclusions

In conclusion, the opinions of the above economists have made a significant contribution to the development of entrepreneurial economics to a certain extent. The opinions of each scientist were considered revolutionary in their time. Over time, their opinions lose their relevance to a certain extent. For example, Richard Cantello's opinion that an entrepreneur carries out his activities in conditions of uncertainty is not absolute in our time. Because now an entrepreneur has the opportunity to minimize the likelihood of his losses while carrying out entrepreneurial activities, relying on accurate calculations, or Baptiste Say's opinion that the amount of supply determines the level of demand in the market is also somewhat flawed. Also, the opinions expressed by economists are justified, but they have some shortcomings, and their opinions tend to change taking into account events in the real economy. From this research work, it can be concluded that entrepreneurship theory is a broad concept and that much research can be done in this direction.

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