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The Chronological Development of the Theory of the Firm, Theory of Entrepreneurship and Theory of Social Entrepreneurship

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Abstract
The paper explores conceptually the chronological development of the theory of the firm, the theory of entrepreneurship and theory of social entrepreneurship. This theories constructs were explained to provide the important part of the development based on economic circumstances. This paper allows researchers to get the main ideas from the pioneer stage until current enlargement under the theory of the firm, the theory of entrepreneurship and theory of social entrepreneurship with the moderate information. Theoretically, learning the early stages of these theories allows flexible and focused for all enterprises to perform better. Social entrepreneurship with the hybrid corporate objectives requires more understanding towards this theory for sustainability and increase competitive advantage.
Keywords: *Theory of the Firm, Theory of Entrepreneurship, Theory of Social Entrepreneurship*

1.0 Introduction

When scholars began to talk about the early pioneers of social entrepreneurship, it was discovered that Ronald Coase had already developed a similar concept known as theory the firm in 1937. The concept of the firm was further expanded with new theories by Alchian and Demsetz (1972), Penrose (1959), Cyert and March (1963), Jensen and Meckling (1976), Willamson (1975), Nelson and Winter (1982), Wernerfelt (1984), and Kogut and Zander (1992, 1996) that gave birth to the new theory of entrepreneurial activities. With the evolution of business strategies developed by industrial organisation economists, the theory of social entrepreneurship has been identified as a key concern for the strategic analysis of businesses that is required for achievement.

2.0 The Chronological Development of the Theory of the Firm, Theory of Entrepreneurship and Theory of Social Entrepreneurship

Businesses are often affected by the wide-ranging economic conditions. Early pioneers of entrepreneurial activities range from Adam Smith to Schumpeterian global firms. In competitive markets, Adam Smith firms would strive to adapt to the current economic conditions. The business would need minimum profits to operate, and would not be able to achieve the competitive advantage (Aharoni, 1993). For Schumpeter, the essence of entrepreneurship is that it destructs the market and moves it away from its equilibrium. Therefore, commercial entrepreneurship can be viewed as the dynamic mechanism that drives the economy by organizing resources to benefit the society (Schumpeter, 1934).

The growing literature for the field of social entrepreneurship has been integrated into the rich entrepreneurship literature, and into theories of cognition and behavior, aimed at expanding these existing theories (Strauss & Corbin, 1990; Whetten, 1989). This current study has relied on Bygrave's (1997) theory of entrepreneurship behavior, and Schumpeter's (1934) theory of entrepreneurial innovation. Additionally, Ajzen's (1991) theory of planned behavior was used to build on the cognitive theory for this current study.

The early growth of social entrepreneurship was focused on the social mission and the need for innovation (Schumpeter, 1934). As an agent of change, social entrepreneurs provide important products and services to the society, and most of the profit from the business is used to complete the mission. Their primary concern is not to gain profit for themselves, but mostly for the society.

Early scholars agree that the primary basis related to the study of entrepreneurship was paved by Hebert and Link (1988). Records for the earliest usage of the word "entrepreneur" and the growth of this concept can be traced to the works of Richard Cantillon in 1755. The word "entrepreneur" can be used in accordance with the construct of "someone who conducts a business discipline within the face of uncertainty." Other researchers who have some influence in this definition include Jean-Baptiste Say (1767-1832), Frank Knight (1885-1972), Joseph Schumpeter (1883-1950), Israel Kirzner (1973), and Harvey Leibenstein (1968).

The difference between social entrepreneurship and social enterprise is the purpose of these businesses. Social enterprises operate their businesses for social purposes. However, social entrepreneurs operate their businesses by implementing innovation and higher risks with the aim of contributing to the society. Some scholars agree that social entrepreneurship can help to reduce poverty. According to Yunus (2007), the importance of social entrepreneurship ties to its ability to offer support or financial assistance to the needy, for example, the Grameen Bank in Bangladesh.

The role of social entrepreneurship in promoting a sustainable and equitable economic growth has been the focus of governments around the world (Malaysian Social Enterprise Blueprint, 2015). The Malaysian government trust that this strategy will create a strong foundation and environment for social enterprises to grow.

Social entrepreneurship applies the ideologies of entrepreneurship when developing a venture that could initiate social changes. Thus, social entrepreneurs are change agents who are prepared to deal with specific social problems. Their social mission is the core characteristic that distinguishes them from business entrepreneurs (Dees, 1998) because they are driven by social improvement and not profits.

Dees (1998) argued that social entrepreneurs are similar with other businesspersons, but what makes them different is their nonprofit–oriented business, which is driven by the social improvement. Social entrepreneurship is based on common entrepreneurship that organizes, creates, and manages business activities for social value.

2.1 Theory of the Firm

Ronald Coase (1937) was the pioneer behind the concept of the firm, who stated that failure to declare its assumptions has caused the economic theory to suffer the consequences. He analysed the economists' definition of a 'firm' and its relations to real-life firms. Consequently, Coase deducted that a firm would have probably been the culmination of unsatisfactory short-term contracts. He also claimed that the establishment of a firm would be implausible without some form of uncertainty.

Then, Armen Alchian and Harold Demsetz proposed a new theory in 1972, which was based on their analysis of team production, which confirmed Coase's observations. Consequently, they reported that the rise of a firm is due to the additional yield imparted by team production. Nonetheless, this achievement relies on the capacity to deal with the group in order to mitigate metering issues (the expense to quantify the minor yields of the co-working contributions as rewards are high) and specialist avoidance (the ethical danger issue), by assessing peripheral profitability by watching or determining input behaviour (Alchian & Demsetz, 1972).

The theory of the firm was expanded with the development of another theory by Edith Penrose (1959). The theory proposed by Penrose had highlighted the growth of firms, as well as a recount of the economic context of the firms, and the way they would achieve and maintain their competitive advantages. This theory is recognised as the foundation for the Resource-Based View (RBV) of the firm by Birger Wernerfelt (1984). Wernerfelt exploited the resource-product matrix, which is rather analogous to the growth-share matrix that allows firms to consider different growth paths.

The next theory was expanded by Cyert and March (1963), which highlighted the seminal work on the Behavioural Theory of the Firm at the level of an individual's firm. The primary concept of this theory explains whether selections are made inside the firm, which would surpass neoclassical economics. This theory was based on Herbert A. Simon's work during the 50s, which were focused more on custom conditions than uncertainty.

Williamson (1975) proposed another theory of the firm, known as the transaction cost economics (TCE). It is also referred to as coordination costs, which can be defined as the expense of the entire process of organising information related to workers and machines that are involved in primary procedures.

Later, Jensen and Meckling (1976) proposed a theory that is structured around managerial behaviour, agency expenses and ownership framework. This theory is touted as an important basis for the theory of the agency, and specifically, for the economics of corporate governance.

However, in 1982, Nelson and Winter explored seminal work on the evolution of the firm. They examined a model of a firm on the notion of routine, which included characteristics of firms that include well-specified technical routines for producing things, procedures for hiring and firing, ordering new inventory, stepping up the production of high demand items, putting policies regarding investment, research, and development (R&D), or advertising in place, creating business strategies for product diversification, as well as planning for overseas investment.

Although extensive studies have been done on the theory of the firm, there are still some arguments regarding the extent of the theory. Such arguments have led to the proposals of analogies to entry barriers and growth-share, as well as the ideas for resource position barriers and product resources. These tools are essential for emphasizing the different strategic options that have materialised from the resource perspective (Wernerfelt, 1984). Resource-Based-View argued that a firm possesses resources that would enable it to achieve sustainable competitive advantage. The final theory of the firm was developed by Kogut and Zander (1992, 1996), which is known as the Knowledge-based theory of the firm.

The overall theory of the firm places the emphasis on regaining lost opportunities in terms of optimizing the resources, namely the people, talents, and other intangible resources. The schools of Coasian are concerned about efficiency and productivity, whereas the Simonian schools are very much concerned about rational, logical, and sensible approaches in managing firms and enterprises. Simon (1951) contended that a rational approach in enterprises allows for efficiency and effectiveness beyond mere profitability, which includes social variables. Nevertheless, Williamson (1988), in the Transaction-cost economics (TCE) approach, argued that the maximization of profit and the minimization of costs are significant to advance the firms and to gain competitive advantages.

2.2 Theory of Entrepreneurship

Entrepreneurship is about taking risks; thus, the difference between each theory of entrepreneurship is related to the contrasting roles of the entrepreneur and the capitalist. Hébert and Link (2006) regarded Cantillon's idea of an entrepreneur as being imperative towards understanding the economic analysis. The definition of an entrepreneur can be varied. Various scholars (for example, Cantillon (1755), Schumpeter (1912), Knight (1921), and Kirzner (1973)) have different definitions for entrepreneurs based on various parameters. The differences are based on two dimensions, namely, the descriptors and the remarks.

'Entrepreneurs are crucial to economic contribution' became the primary description for Cantillon. He knew the availability of mitigating measures that could reduce risks; things that are otherwise unrelated to his proposed entrepreneurship theory. His thoughts regarding uncertainty can be linked to unforeseeable things. On the other hand, Schumpeter had developed the theory of economic development based on the self-motivated and pioneering entrepreneurs. This theory led to the popularity of the phrase, 'Schumpeterian entrepreneur'. This phrase implies the existence of other types of entrepreneurs who take different approaches. He believed that an entrepreneur is capable of offering value to the society by conducting various economic variations that lead to the discontinuity. This train of thought has made its way into the numerous definitions of social entrepreneurs available within the past 50 years. Meanwhile, Knight had proposed that uncertainty and perceptiveness were the force behind progress and profits, with the focus on risk and not rational thinking or innovation. Lastly, Kirzner viewed entrepreneurs as alert and creative organizers who re-establish the equilibrium. Entrepreneurship then, adds value or adds what is valued to the overarching discourse in the emerging discourse on social entrepreneurship.

2.3 Theory of Social Entrepreneurship

Recent developments in the field of social entrepreneurship are due to on-going discussions among scholars regarding the main definition of this term. The drive behind the changes in social entrepreneurship is to serve the society's interest as well as to boost the economy (Alvord et al., 2002; Mair & Noboa, 2003). Although the study of social enterprises and social entrepreneurship is still in its infancy, each concept has been developed based on its relative history. According to Dart (2004), the idea behind social enterprise was established a century ago. On the other hand, the study of social entrepreneurship had only begun in the 1990s (Waddock & Post, 1991), whereas literary bases of entrepreneurship can be found since the 1700s (Cantillon, 1954 [1755]; Smith, 1904 [1776]).

Thus, it is necessary to clarify exactly what social entrepreneurship means. This term has been used to describe the avocation and mission of a society. It may also refer to the notion of "total wealth", as presented by Zahra *et al*. (2009). Social entrepreneurship embodies the relationship between social activities and economic wealth generation that are conducted to sustain business activities (Boschee & McClurg, 2003; Emerson & Twersky, 1996; Thompson, 2002).

In relation to the evolution of business strategies that were developed by industrial organization economists, the theory of social entrepreneurship has been identified as a key concern for the analysis of business strategies required for success. Entrepreneurship theories seek to explain how, why, and to what effect entrepreneurs act upon opportunities (Shane & Venkataraman, 2000).

Businesses are vulnerable to the effects of the wide-ranging economic conditions that could hinder their capabilities. Entrepreneurship activities include the early work of pioneers, such as Adam Smith and Schumpeterian global firms. Moreover, Adam Smith firms do not have any specific strategy when facing the competitive market because they are able to adapt to any economic conditions. Nonetheless, all businesses require minimum profits to operate, thus, some of them would fail to reach the competitive advantage (Aharoni, 1993). For Schumpeter, the essence of entrepreneurship is that it destructs the market and moves it away from its equilibrium. Entrepreneurship theory is also more focused on uncertainty and how it constrains action (McMullen & Shepherd, 2006). Uncertainty in the entrepreneurship theory is mainly perceived as pertaining to the unpredictable success or failure of an entrepreneur's initiative. Yet, since "action is central to most theories of entrepreneurship" (McMullen & Shepherd, 2006, p. 133), it follows that entrepreneurial action is not totally constrained by uncertainty. According to McMullen and Shepherd (2006), knowledge and motivation are two aspects that make entrepreneurial action possible, and that they limit the constraining aspect of uncertainty.

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