

An Investigation on the Role of Entrepreneurship in Economic Development and its Implications

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Abstract

One of the vital objectives of modern economics is to determine the factors that influence the economic development. The relationship between entrepreneurship and economic growth have been reviewed and empirically examined by various literature reports. In this context, this report solicits to discuss entrepreneurship as one of the major factors that affects the economic development of a nation. Previously, the significant role of entrepreneurship on economic development is exclusively reported by many research groups at the industry or organizational level. On the other hand, the national level contributions on the socio-economic development due to the steady growth and advancement in the entrepreneurship are rarely reported. In order to circumvent these boundaries, this report aims to demonstrate the detailed investigation on the development and impact of entrepreneurship on economy at national level.

The methodological approach performed here is mainly based on reviewing various national/international journals. The data was collected from numerous reports including Global Entrepreneurship Monitor (GEM), employment plan, central statistical data etc.

The results of the present investigation represent the changes in the entrepreneurial factors which positively effects on economic growth of a nation in the long run. Particularly, the traditional causes of economic growth such as the amounts of labour, capital, and knowledge that a country possesses do not impact on the level of entrepreneurship. Moreover, the government plays crucial role in formulating the supportive policies and promoting the entrepreneurship towards strengthening economic establishment. The study brings out the need and requirement for the future research in this line and hence open new avenue in the area of entrepreneurship programs/policies in economic development.

KEYWORDS: Entrepreneurship, Economic development.

Introduction

Entrepreneurship has been identified by many economists as a driven spark in the process of economic development and industrialization. Entrepreneur is one who always searches for change, undertakes risks and challenges, involve in innovation and also performs the managerial functions of co-ordination and decision making. Entrepreneur is a person who involves in different types of business either in productions or services. But his main objectives are expansion of his business, profit maximization, sales maximization and survival in this existing market and so on. Therefore all the activities of entrepreneurs are directly or indirectly effects on the economic development. Economic development means a change, which is not only a quantitative phenomenon but has qualitative dimension also. The entrepreneur is the key to the creation of new enterprises which generally effects on different economic

variables i.e. generation of employment opportunities, improvement in per capita income, improvement in living standard, backward and forward linkages etc., in our economic development. (S Manjunath, M.P Hrishikesh, Santhosh Kumar A.V-2008).

Entrepreneurship has both the dimensions of art and science. As an art, it acquires a number of skills which has to be trained and for the science they have to prove themselves in the changing scenario. Entrepreneurship is the blood of economic prosperity. Entrepreneurship involving innovation is must for sustained growth and development across political geographies (Singh and Gaur, 2018). The entrepreneurial man shows his abilities to take a risk in the hope of the future profits, establish long-term aims and pursue them consistently, perceive new possibilities for action, adapt one's own strategy of action to changing external conditions etc. (Paweł Andrzej Nowocień – 2017). Different activities of entrepreneurs are positively effects on number of variables in economic development.

Review of literature

Entrepreneurs are people who create new businesses, which help generate new jobs for people. They help in increasing productivity with the help of modern technology and innovative ideas and thus contributing in the development of economy, followed by economic growth. So it can be said that entrepreneurship is very essential for economic growth (Dr. Sangya Shrivastava, Roopal Shrivastava, 2013). Entrepreneurship acts as independent variable which has been significantly positive influencing on the economic growth in a country (Daniel Smith- 2010). A positive connection between growth and entrepreneurship is sensible on the innovation activity or idea. Thus, a significant entrepreneurial supply in the economy brings up accelerate changes in economic development (Marcus Dejardin 2000).

The effects of entrepreneurial activities on economic growth come out in the long run, supportive policies of the government which helpful for entrepreneur to create new business, ultimately effects on economic development in the long run (Mesut Savrul – 2017). An entrepreneur who undertakings risk and challenges to improving his existing business. He plays a pivotal role in the development of three sectors in our economy (agriculture, industry and service sector). The study focused on mainly four factors that influenced on entrepreneurship starts up, namely, general self-efficacy, culture and social norms, education and training, and research and development transfer (Bylon Abeeku Bamfo and Felicity Asiedu-Appiah, Courage Simon Kofi Dogbe 2017). The development of entrepreneurship depends on level of social capital, qualitative and quantitative elements (Paweł Andrzej Nowocień 2017).

This paper studied about the interconnection between entrepreneurship and economic development in a country. Dynamic changes in the various factors such as technology, demography, legal, political, socio economic conditions and so on which directly effects on development of entrepreneurship and economic performance in our economy (Sorin-George Toma, et al 2013). Total activities of entrepreneur are majorly influencing on GDP and per capita income which ultimately helpful for achieving sustainable development of economy (André van Stel, Martin Carree, Roy Thurik 2004). In this study, investigate the effects of entrepreneurship on economic development in both developed and under developed countries. Moreover, this study suggest that, growth oriented activities of entrepreneurship seems to contribute greatly on sustainable economic growth only in high level of income countries (Erik Stam and André van Stel 2009). This paper shows that effects of entrepreneurship which directly or indirectly effects on economic prosperity. Then he further explained that role of entrepreneurship in economic development through generating employment,

reducing poverty, and improving macroeconomic variables (Omoruyi EMM1 et al 2017). According to Elda Doda and Gungor Turan (2016) innovative idea of entrepreneurship is a factor which has greatly effects on generating employment, reducing unemployment and create a positive environment in a country. Therefore, in this paper, researchers mentioned that there will be a positive interconnection between entrepreneurship and economic growth. The aim of this paper is to study about the formation of new enterprise and SME developments are important indicator of entrepreneurial development in a country. Government has to make appropriate supportive policy measures which influencing on development of entrepreneurship in a country (Urve Venesaar and Piret Loomets 2014).

Research Methodology

The methodological approach performed here is mainly based on reviewing various national/international journals. The data was collected from numerous reports including Global Entrepreneurship Monitor (GEM), Employment plan, Central statistical data and Statistical report of India etc.

Role of Entrepreneurship in Economic Development

To appreciate the role played by entrepreneurship in changing the economy of a country, the follow discussion tries to pursue the practicability aspect of it. The role of entrepreneurs is depending on the material resources, industry climate, government policies and responsiveness of the political system, it varies from economy to economy. In many cases, the economic wellbeing of a country is measured by the rates of employment. In India, throughout the years, entrepreneurship has played a pivotal role in changing the country's economy towards the economic development, a factor which has led it to be rated among the fastest growing economies in the world. In India, unemployment rate tend to be decreasing because of entrepreneurial activities. The significant role of entrepreneurship plays in the economic development of an economy can now be put in a more systematic and well-ordered manner as follows:

Promotes Capital Formation: Capital formation means creating or making supplementary capital goods such as machines, tools, equipment, factories, transport equipment, materials, electricity, etc., which are all utilized for further process of production of goods and services. Entrepreneurs nurture capital formation by mobilising the idle savings of public. The saving capacities of an economy mainly depend upon the level of income or distribution of national income. The higher level of income depends upon the level of employment, but level of employment created by entrepreneurs. So entrepreneurs will utilize their own as well as borrowed resources for setting up their enterprises. Such type of entrepreneurial activities leads to increase value addition, generating employment opportunities, creation of wealth, and increases circulation of money and capital formation which is very consequential for the industrial and economic development of the country.

Generate Large-Scale Employment Opportunities: This concept emphasis on modernization which result in use of high technology, technology up gradation, automation, research and developmental activities and innovative ideas initiated during 1980 and structural changes, economic reforms and globalization, privatization and liberalization concepts are introduced by the government during 1990-1991. All these kind of positive improvement and developments in rules and reforms in our economy continuously motivating to number of enterprising people to develop self-

employment and entrepreneurial career. Therefore it will help in solving the problems of unemployment and poverty in India in some extent. The Govt. of India has launched initiatives such as Start-up India to promote and support to entrepreneurs to new start-ups of number of enterprises and the Make in India initiative to tempt number of foreign companies to start-up business in India through foreign direct investment. In this way, government has been motivating to number of entrepreneurs to start-up and develop the business in India. Therefore number of foreign countries also willing to invest more amount of money on business in India through FDI. Ultimately it leads to develop entrepreneurial activities in our economy and it will generate large scale employment opportunities to both skilled and unskilled labourers and is helping in augmenting our standards to a global level.

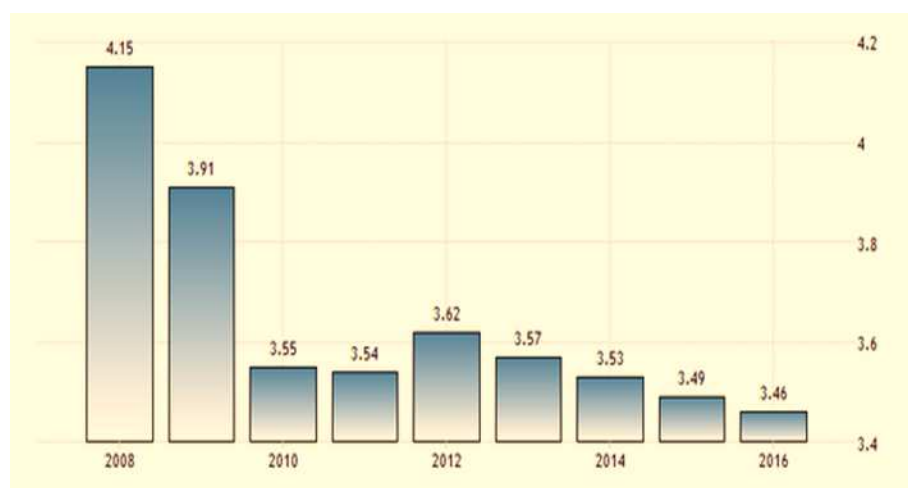


Figure 1: India unemployment rate. The unemployment rate tend to be decreasing from 4.15 in 2008 to 3.46 in 2016 in our economy. Thus, the role of entrepreneurship is very essential for eliminate the problems of unemployment in the country.

Encourage Overall Development: Entrepreneurs generate businesses, businesses create job opportunities and people with employment make good customers. Once an enterprise is starts up, the process of production is set in motion. This unit will generate demand for various types of resources required for the production process. Such as raw material, equipment, factor of production, machine, technology, transportation facilities etc. Ultimately number of related enterprise will establish nearby location. In this way, infrastructural facilities, transport facilities and financial institution will tend to be developing. This leads to overall development of our nation like increase in per capita income, purchasing power of people, standard of living, increasing demand and setting up of more and better units, increasing export and import substitution goods and increasing foreign exchange reserves etc. Therefore the entrepreneurs will get enthusiasm to better involve in their entrepreneurial activities, thus it conveying an impetus for overall development of the nation.

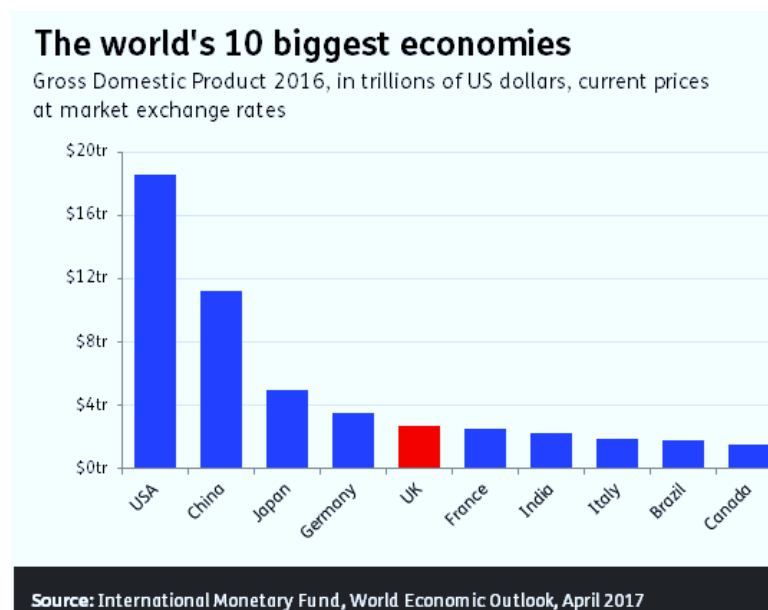


Figure 2: The World's 10 biggest economies. It shows that India is in 7th place among 10 biggest economies. It means, government has been encouraging to the number of entrepreneur to start up various businesses in a country. Therefore it would effects on the development of three sectors in our economy.

Increasing Gross National Product and Per Capita Income: Entrepreneurs are always identifying various opportunities in their competitive businesses. They are concentrating on effective utilization of available resources in the production process with the help of an innovative ideas and skills. Therefore entrepreneurs are always ready to undertake different risk and challenges in their businesses. In this way they are concentrating on achieving different goals of businesses such as profit maximization, sales maximizations, expansion of business and survival in existing market etc. In order to achieve their target and goals, entrepreneurs are involving in producing innovative product and services. This kind of enthusiasm of entrepreneur will helpful for increasing gross national product as well as per capita income of the people in a country. If they are investing more capital in their businesses, which generate job opportunities for number of employees. Ultimately their wages or salary level might goes up. Therefore these conditions of employees would lead to the increasing per capita income, purchasing power of people and improving standard of living of the people in a country. In this way prices of the products will start to increases, it will lead to inflation. This is the positive sign of economic growth in our economy.

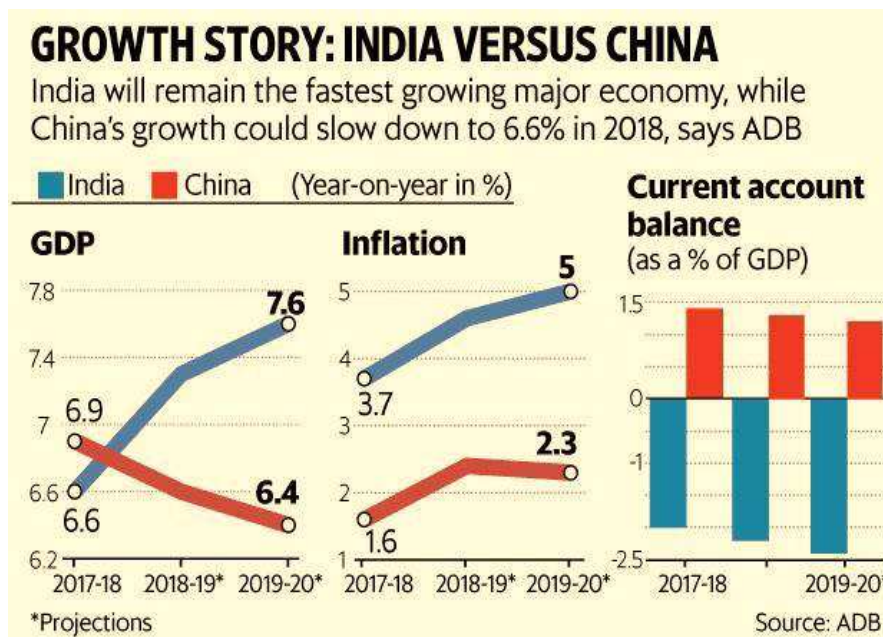


Figure 3: GDP and Inflation. The India's GDP rate tends to be increasing from 6.6% (2017-18) to 7.4% (2018-19). At the same time inflation rate also has been increasing in our economy from 3.7% to 4.8%. Entrepreneurial activities tend to increase which positively affects on increasing output and GDP in our economy. At the same time per capita income also increases.

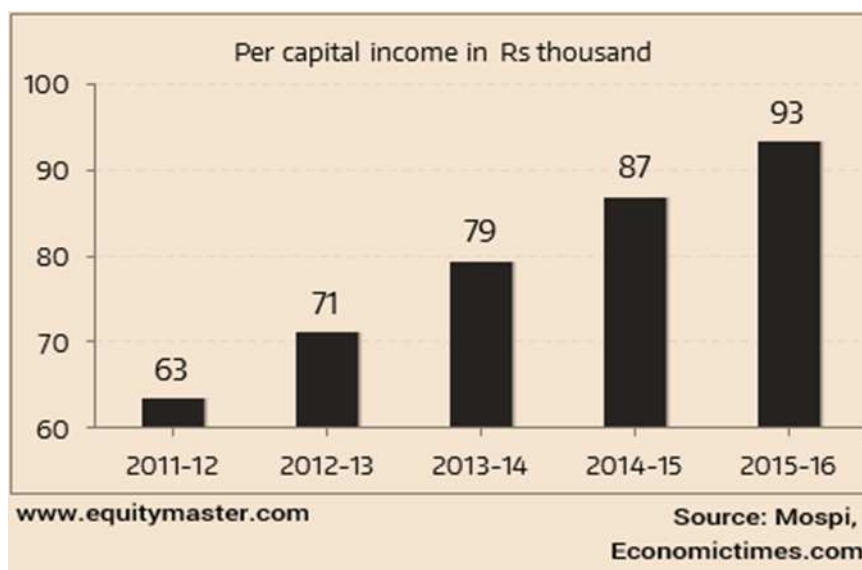


Figure 4: Per capita Income. The per capita income of the people in a country tends to increase from year by year. During 2011-12, Per capita income was Rs.63 thousand. It started increasing from Rs.71, to Rs.87, Rs.93 thousand during the periods of 2012-13, 2014-15, and 2015-16 respectively. Therefore entrepreneurial factor has majorly positive effects on GDP, per capita income and inflation in our developing economy.

Entrepreneurship introduces innovations that induce Economic growth: Innovation is one of the key elements for economic growth in a country. Competitions in the domestic and international markets are now becoming knowledge-based and this is what countries like India need to adapt to grow their economic sectors. Most of the

states in India are known of traditional economic sectors such as textiles, leather, and food processing etc., such sectors need innovation and technological advancement for encourage modern entrepreneurship that will induce economic growth. In order to eliminate poverty and unemployment, government need to encourage entrepreneurship and innovation because innovative entrepreneurship act as an agent of changing the structure of the economy with the help of technological up gradation in the process of production, introducing new kind of the products and services to a market and creating values and demand for various economic variables such as human resource, capital, machine, various tools, equipment, input and outputs etc. In order to achieve their goals and target, innovative entrepreneurs are concentrating on effective utilization of available resources in most effective manner in the process of production and reducing and minimizing the cost of production as well as will achieve economic of scale in their entrepreneurial activities with the help of innovation, research and updated technology.

Shortcomings of Entrepreneurship on Economic development

The entrepreneurship plays an essential role in the economic development of a nation. There are two major undermines the development of the nation. First shortcoming of entrepreneurial activity in India is hyperinflation. Simply defined in economic term, inflation refers to the increasing supply of money and price level except the value of money, where there is too much a transaction or circulation of money in the economy. During inflation, prices of different goods and services also tend to be increases and it will be more dangerous for entrepreneurs to utilize sophisticated factors in the production process in most effective manner, because they need to be investing more for same elements due to inflation in a country. In this stage, almost all the entrepreneurs produce goods of the same nature. Therefore, entrepreneurs might fail to sell their products in international market or willing to sell less than the actual value of the products.

Second shortcoming of entrepreneurial activity in India is environmental degradation. As entrepreneurs are involves in various kind of the process of production and services, they end up with over exploiting the natural resources to exhaustion. Such resources include the mineral resources (iron, copper, gold, silver and diamond), oil, water and forest etc. Therefore, government need to make various supportive policies, in order to control or minimize the levels of exploitation of natural resources and to safeguard the future generation. The government need to simulate entrepreneur's activities along with the sustainable development.

Conclusions

The research revealed that entrepreneurs play a huge and outstanding role in India by generating employment opportunities and increasing GDP and per capita income. It is also informed that the Indian entrepreneur is the key player towards the elimination of poverty and unemployment. The government and all the stakeholders have to do their all the responsibilities in most effective manner so they can abet entrepreneurs and enhance economic growth. Finally we found that research and developmental activities, innovation, entrepreneurial curriculum training and development, education, individual entrepreneurial attributes, the involvement of micro, small and medium enterprises, the collaboration of government and different sectors is major tool for entrepreneurship development. Maximizing and capitalizing on SMEs are essential for our economy to generate employment opportunities and to enhance economic prosperity.

Implications / Policy Recommendations

Indian government need to make vocational entrepreneurial training and development in the education system so that educated people who are exposed to entrepreneurship from their childhood. The government need to provide more incentives to entrepreneurs such as tax holidays, financial assistants, and subsidies. This kind of incentives would stimulate number of entrepreneurs to involve in various productive activities in different sector of our economy. Indian government should introduce a supportive policy towards entrepreneurs. That will help to improve the physical infrastructure-power, broadband internet, transportation, financial institution, and communication system particularly in the rural and semi urban areas. Therefore, it further stimulates entrepreneurial activities as well as economic growth in a country.

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