



EFFECT OF ENTREPRENEURSHIP ON ECONOMIC GROWTH - SOME OBSERVATIONS

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ABSTRACT

Productive entrepreneurship is generally assumed to be conducive to economic growth through exploiting new business opportunities and creating new jobs. Today, emerging countries, with their vast youth labour force and low or middle income level, are starting to direct their policies towards encouraging entrepreneurship. Moreover, international, regional and local media have also focused on entrepreneurship as a vehicle for growth. In this paper, a regression analysis has been conducted to investigate the impact of entrepreneurship on the economic growth in seven countries, representing emerging countries. Results have revealed a significant negative relationship between entrepreneurship and economic growth indicating the importance of the role of other factors such as: institutional framework and investing in "new economy" sectors, in affecting this relationship. Entrepreneurship and economic development.

KEYWORDS: *Entrepreneurship, economic growth, economic development.*

INTRODUCTION

Several tremendous changes have occurred in the last two or three decades, such as the rapid developments in communication and technology, the falling transportation cost and the free flow of trade and services, all of which are changing the world to become such a one small village. Moreover, these changes have put excessive pressure, on along with providing opportunities for the domestic firms in emerging countries to find out a way to compete with huge companies invading their markets through creating new ideas, innovating, and improving their competitive position. Moreover, the world had been shifting towards a knowledge based economy where success is mainly based on skills, knowledge and innovation that serve as a competitive advantage of such economy. As governments in emerging countries perceived the importance of entrepreneurship in providing these new ideas and innovation capabilities, they started to support entrepreneurs, as being the engine of economic growth and sustainable development. Any meaningful talk about economic reform in emerging markets cannot dismiss the question of entrepreneurship and its ecosystem.

ENTREPRENEURSHIP DEFINITION

Entrepreneurship is a globally recognized phenomenon lacking a single agreed upon definition, as scholars have suggested various definitions for entrepreneurship. The following lines will present different definitions for entrepreneur and entrepreneurship.

A business person is "somebody who represents considerable authority in assuming liability for and settling on judgmental choices that influence the area, frame, and the utilization of products, assets or establishments" (Hebert and Link, 1989).

While Baumol (1990) characterized business visionaries as 'people who are keen and imaginative in discovering ways that add to their very own riches, influence, and esteem'. Kirzner (1973) defined entrepreneurship as "a process of discovery; the acting upon previously unnoticed and often marginal—profit opportunities." Another definition of entrepreneurship proposed by the OECD:

"Entrepreneurs are agents of change and growth in a market economy and they can act to accelerate the generation, dissemination and application of innovative ideas... Entrepreneurs not only seek out and identify potentially profitable economic opportunities but are also willing to take risks to see if their hunches are right" (OECD, 1998, p. 11) While Hart (2003: 5) defines entrepreneurship as the "process of starting and continuing to expand new businesses"

To sum up, productive entrepreneur has four roles: innovator, coordinator, bears risk and perceives profit opportunities.

ROLES OF ENTREPRENEURSHIP TO ECONOMIC DEVELOPMENT

The following are the role of entrepreneurship in economic development of any country. They are:

Bridging the gap between Science and Market Place

Scientists are individuals that invent electricity, computer, transistor radio, television, camera, calculator etc. These scientists are inventors whose inventions had no commercial value until entrepreneurs came in to knit social need and technology (Udu, et al 2008). It is therefore the entrepreneurs through entrepreneurship who successfully founded a way of introducing an invention into the realm of human needs.

Employment Generation/Reduction of Unemployment

Unemployment refers to a situation where people who are willing and capable of working are unable to find employment/jobs to do. It is one of the macro-economic problems which every responsible government is expected to monitor and regulate. The process of entrepreneurship activity reducing unemployment situation in the economy is termed "Schumpeter effect" (Duniya, 2010). It has been observed that, unemployment is negatively related to new firm startups, that is, as new businesses are established and employment of resources is stimulated and unemployment reduces substantially. In the same vein, it was noted that high unemployment in the society is associated with a low degree of entrepreneurial activities, that is, where propensity to set up enterprises is low; the rate of unemployment would be very high. The implication of the above assertions is that those who are unemployed tend to remain so because they possess lower endowments of human capital and entrepreneurial talents required to start and sustain new firms to keep them going. A low rate of entrepreneurship culture and skills in any society may be a consequence of the low economic growth, which also reflects higher levels of unemployment. In the same vein, Udu, et al (2008) observed that entrepreneurs are greatest employer of labour. It is either existing enterprises are employing or entrepreneurship offers business opportunities to entrepreneurs, either way job opportunities are created.

Wealth Creation and Poverty Reduction

Duniya, (2010) argue that entrepreneurship enables individuals to use their potentials and energies to create wealth through the creation of goods and services. Poverty is a condition of living that is characterized by lack of the basic necessities of life. Bougeoise, (2012) observed that one of the major causes of poverty is unemployment and since entrepreneurship is preoccupied with employment generation, then by extension, the generation of employment will therefore reduce the level of poverty. Wealth if created will definitely reduce the incidence of poverty by empowering the citizens and increasing their access to basic necessities of life (food, clothing, shelter, security and education)

Reduction in Rural- Urban Migration:

The burgeoning problems of urban un-employment and population congestion owing to the rapid rural urban drift find its ultimate solution in the restoration of a proper balance between urban and rural economic opportunity. Rural entrepreneurial activity in generating employment is the link achieving this balance (Duniya, 2010).

Reduction of Crime Rate:

It is strongly believed that unemployment is responsible to a large extent for the level of social complication of armed robbery, political thuggery, drugs peddling, prostitution, money laundering, currency counterfeiting, e-mail scam, and other such related crimes. When individuals are unable to satisfy their needs, most often, frustration occurs. These frustrations breed fraudulent practices. Employment generation therefore will reduce the level of frustration and consequently, crime rate (Baumol, 2012)

Raising the Standard of Living:

Barreto (2014) contends that entrepreneurship through job and wealth creation raises the standard of living of people. Owing to higher income earning and availability of disposable income, they can therefore, afford the basic necessities of life such as housing, clothing and food, education, good health care delivery, etc.

Theoretical perspectives on entrepreneurship in development

Other social definitions consider a more generous job for enterprise in creating nations. Kirzner (1973) sees the business person as somebody who encourages acclimation to change by spotting open doors for gainful exchange (and 'disequilibrium' circumstances in the market). This view has resounded among researchers who stress the open door snatching revenue driven nature of business (Shane and Ventakaram 2000) especially in creating nations where advertise disequilibria might be normal.

Conduct definitions additionally push the hazard taking element of enterprise. Kanbur (1979:773) depicted the business person as one who 'deals with the creation work' by paying specialists' wages (which are more sure than benefits) and boring the dangers and vulnerabilities of generation. Such definitions are viewed as extremely pertinent for creating nation settings described by high hazard and vulnerability. The power of little firms in creating nations – the heft of business enterprise ponders in creating nations are worried about little and medium ventures (SMEs) - has been hypothesized to be a side effect of extensive vulnerability, where the likelihood of progress is little.

Strategy suggestions pursue from these perspectives, for example that administration arrangement for advancing business enterprise ought to diminish vulnerability and exchange costs. Arrangement however, is just a proximate reason for hazard and vulnerability and as of late improvement researchers have perceived 'organizations' (the "standards of the diversion") as a definitive determinant of advancement. Organizations influence the supply as well as, maybe considerably more significantly, the distribution of business enterprise. As per Baumol (1990:895) innovative capacity can be distributed towards profitable, inefficient, or even dangerous exercises. He characterizes business visionaries as 'people who are cunning and innovative in discovering ways that add to their own riches, influence, and glory'. Underdevelopment isn't because of an inadequate supply of business visionaries, yet because of institutional shortcomings that outcome in an "absence of benefit openings fixing to exercises that yield financial development".

STRUCTURAL ECONOMIC TRANSFORMATION AND ENTREPRENEURSHIP

One of the original commitments to improvement financial aspects has been double economy models, propelled by Lewis (1954), used to clarify the basic change of immature economies. Gries and Naudé (2010) grow the Lewis-display refinement between a customary and present day segment with the small scale establishments of streamlining family units, firms and work showcase coordinating. They likewise

recognize develop and start-up business people, between huge firms and little firms, and among need and opportunity-driven enterprise. In their model the change from a low-pay, conventional economy to an advanced economy includes huge changes to creation techniques, a procedure of progress where business visionaries give basic jobs, including giving inventive moderate sources of info, allowing specialization and raising profitability and work.

In auxiliary change, innovative capacity has been concurred the middle of everyone's attention. Murphy et al (1991) gave a model that portrayed firm size and the development of the economy as a component of enterprising capacity. Nelson and Pack (1999) relegates a key job to the 'viability of innovative capacity' which they see as an imperative determinant of the rate of digestion of innovation (1999:420) – as in Michelacci (2003) where pioneering capacity is crucial for R&D. In Nelson and Pack (1999) a 'quick' development of gifted work must be consumed if pioneering capacity is high, and that without innovative capacity the profits to physical and human capital is low.

At long last, a part of duality that is especially relevant to the discussion on business enterprise being developed is that between the formal and casual area (Maloney 2004). De Paula and Scheinkman (2007) locate that casual firms are regularly a type of 'shifty' business with the end goal to avoid duties or directions, or to take part in illicit exchange. They additionally find that they are less proficient, less ready to get fund, and more prone to be overwhelmed by business visionaries of low.

MULTI-DIMENSIONAL DEVELOPMENT AND ENTREPRENEURSHIP

The business enterprise writing for the most part takes a confined perspective of improvement. Most experimental investigations on the connection among business and advancement have also been restricted to GDP, efficiency and work development as intermediaries for improvement – and not multi-dimensional advancement (Ács et al. 2008, van Praag and Versloot 2007). However business enterprise can likewise add to multi-dimensional prosperity by what individuals can accomplish through their abilities (Gries and Naudé, 2011). This thought of human advancement - or human thriving - has been spearheaded by Sen (2000), Nussbaum (2000) and others.

This abilities approach can illuminate both hypothetical reasoning on and estimation of enterprise. It sees enterprise is a human functioning² that can be esteemed as an end, and not similarly as a way to different closures. It can advance human capacities if individuals' integral abilities are extended with the goal that they can decide not to be business visionaries. An imperative ramifications is that the interest for business visionaries is certifiably not a determined interest as in the instrumentalist see (as e.g. in Casson et al., 2006). Singular dimension information from the Global Entrepreneurship Monitor (GEM) demonstrate proof of a reverse U-shape connection among enterprise and national joy. Opportunity-inspired business enterprise may add to a country's bliss, yet just to a limited degree. Not every person ought to wind up business visionaries, and the satisfaction of a country can't be – inconclusively expanded by expanding the quantities of business visionaries.

MARKET FAILURES, THE STATE AND ENTREPRENEURSHIP

The third "terrific thought" being developed financial matters concerns market and state disappointments. In the fallout of World War II, when advancement financial matters was established, the conviction was that advertise disappointments were critical to comprehend underdevelopment. Amid the 1980s, the legislature was viewed as comparably subject to disappointment. Consequently, under an arrangement of standards for market situated change depicted as the 'Washington Consensus', a decrease of the job of the state and the progression of business sectors. The verifiable supposition was that the supply of business would be approaching once the limitations forced by state obstruction were released. After the worldwide budgetary emergencies of 2008 and 2009 wherein advertise progression and 'Washington Consensus' sort strategies were observed to be complicit, the administrative job of the state has been restored.

One job of the express that has gotten more consideration is in mechanical approach (Szirmai et al. 2013; Ács and Naudé, 2013). Here, old models of import-assurance and state-claimed ventures have made place for approaches that depend more on the private part and business enterprise, yet with government as yet assuming an essential job to address advertise disappointments in the pioneering start up and development process. For instance some have contended that pioneering passage might be problematic because of the externalities that may legitimize 'self-revelation' through supporting development by SMEs and new firm new businesses, for instance by lessening controls and prerequisites or giving financed credit (Hausmann and Rodrik 2003).

Conversely, others have contended for saddling (managing) business enterprise since it might cast negative externalities. De Meza and Webb (1987) put forth the defense that credit advertise flaws may prompt 'overinvestment' when banks can't precisely pass judgment on enterprising capacity. Since banks can't watch any business visionary's capacity ex risk, financing costs on start-up capital will reflect normal enterprising capacity. On the off chance that the extent of business people of low capacity builds, it will result in higher acquiring costs, which force a contrary externality on business people of high capacity, who will therefore get and contribute less. The passage of business people with low capacity may likewise block advancement on the grounds that such business people may have less beneficial laborers, who will procure decreased wages thus, and thusly diminish the open door expenses of independent work, in this manner causing the section of much more low-capacity business visionaries.

ENHANCING THE DEVELOPMENTAL IMPACT OF ENTREPRENEURSHIP

Given the "amazing thoughts" being developed financial matters the primary approach contemplations for upgrading the formative effect of business are to enhance the quality and designation of pioneering capacity; and diminish the requirement for need enterprise. The two contemplations require better quality and amount of research and information age.

Enhancing the nature of pioneering capacity implies not just enhancing the aptitudes and instruction of business visionaries, their 'human capital', however concentrating on the creative capacities of business people. It is creative business enterprise that is most attractive for development. Development approach should hence to be a focal point of business enterprise advancement in creating nations for what it's worth in cutting edge economies. Business people in creating nations have an a lot more noteworthy penchant for development than is frequently perceived in the writing or by strategy producers.

CONCLUSION

The impact of entrepreneurial activity on economic growth has been one of the main justifications of the Global Entrepreneurship Monitor project. In the present paper we have critically analyzed whether the acclaimed impact of the Total Entrepreneurial Activity (TEA) rate on economic growth stands the test of adding competing variables. There is an impact, but not a simple significant linear effect of the TEA rate on GDP-growth, the TEA rate has a negative effect for the relatively poor countries, while it has a positive effect for the relatively rich countries. The results show that entrepreneurship matters. However, the effect of entrepreneurial activity on growth is not straightforward and can be understood using the distinction between the Schumpeter Mark I versus Mark II regimes or the 'entrepreneurial' versus 'managed' economy. In Schumpeter (1934) the job of the business person as prime reason for financial improvement is underlined. Schumpeter depicts how the developing business person challenges officeholder firms by presenting new creations that make current innovations and items out of date. This procedure of innovative obliteration is the primary normal for what has been known as the Schumpeter Mark I routine. In Schumpeter (1950) the emphasis is on inventive exercises by substantial and set up firms. Schumpeter depicts how huge firms outflank their littler partners in the development and allocation process through a solid positive criticism circle from advancement to expanded R&D exercises. This procedure of inventive collection is the primary normal for what has been known as the Schumpeter Mark II routine. The degree to which both of the two Schumpeterian mechanical routines wins in a specific period and industry changes. It

might rely on the idea of information required to improve, the chances of appropriability, the level of scale (dis)economies, the institutional condition, the significance of absorptive limit, request assortment, and so forth). It was the time of the various leveled mechanical firm becoming logically bigger through abusing economies of scale and degree in regions like creation, appropriation, showcasing and R&D. The period has the qualities of the Schumpeter Mark II routine. Be that as it may, before the finish of the twentieth century things appeared to have changed (Carree et al., 2002).

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