

ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT

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Abstract

The paper looks very briefly at the issues of entrepreneurship and its importance to economic development. These issues have permeated the business / management discourse in recent times and are of particular importance to the developing world. Entrepreneurship lacks a universal definition. It plays a key role in respect to economic development and therefore the paper bears relevance to all facets of economic and general development. The paper therefore attempts to unpack these issues in an orderly manner, for purposes of understanding the terminology and its importance to a host of competing understanding and variables. By so doing it unpacks the very subtle nuances that permeate the thinking that surround these issues.

Key Words: Entrepreneurship, Economic, Development, Population, Businesses, Relationship, Theoretical, Labour Market, Ventures, Research, Trends

Introduction

It is widely accepted that the term “Entrepreneurship” lacks a universal definition. In an attempt to clarify its description, scholars have applied various adjectives to the word entrepreneurship to create sub-domain terms such as “corporate entrepreneurship”, “social entrepreneurship”, “opportunity entrepreneurship” and “necessity entrepreneurship”. These terms provide greater clarity when specifying subject populations and enable research to focus on and explore different aspects of entrepreneurship. (Gedeon, 2010:1)

Regardless of its description, Entrepreneurship appears to play a key role in developing and developed economies alike. Entrepreneurs create new businesses, and new businesses in turn create jobs. High measured levels of entrepreneurship will thus translate into higher levels of economic development and growth in the macro economy. (Acs, 2006).

Van Praag and Versloot (2007) are of the opinion that entrepreneurs contribute to economic development, growth and sustainability through four main categories, namely; (i) Employment generation, (ii) innovation, (iii) productivity and growth, (iv) increasing individuals’ utility levels. Entrepreneurship is responsible for employment creation, productivity growth and producing important spill-overs that affect local employment growth rates in a given region in the long run. Berglund (2005) suggests that entrepreneurs disrupt prevailing equilibria in economic markets through innovation, thereby changing various economic benchmarks, enabling growth within the economy.

However, those who do not directly engage in entrepreneurship (non-entrepreneurs) cannot be ignored either, as they account for a relatively high value of GDP, a less volatile and more secure labour market, higher salaries and a greater number of innovations from “meaty” Research and Development budgets.

Therefore, entrepreneurs have a very important, but specific, function in any economy. (Van Praag and Versloot, 2007)

In this context, it would be useful, for the purposes of analysing the relationship between entrepreneurship and economic development, to be able to identify, inter-alia; the current issues and themes in the domain of Entrepreneurial research, policies governing and regulating entrepreneurs and their businesses, as well as, where scholars and researchers believe the future direction and expansion of entrepreneurship is heading. It is also important to incorporate the global financial crisis and briefly review its effect on entrepreneurship and economic development as well as the role entrepreneurship is expected to play in helping the world recover from the most severe recession in decades.

Entrepreneurial Research: Current Trends

According to Bruyat and Julien (2001), the field of entrepreneurial research has a scientific community that expresses itself via conferences and workshops based on empirical data from case studies and journals dealing with both successful and unsuccessful entrepreneurial ventures. However, Bruyat and Julien (2001), have also, more importantly, noted major shortcomings in theoretical tools and frameworks that foster the development of entrepreneurship, as well as a universally accepted measure of progress in the field.

More recently however, Ahmad and Hoffman, (2008:3) acknowledge that:

“many countries now recognise entrepreneurship policy as a separate discipline and, as a consequence, have taken steps to improve the measurement of entrepreneurship at the national level. At an international level, programs by the World Bank, Eurostat and private organisations such as the Global Entrepreneurship Monitor have also started to develop internationally comparable data”.

The current global financial crisis has undoubtedly given scholars an opportunity to study the effect of recessions on entrepreneurial activity in terms of new venture creation and equally, the role of entrepreneurs in helping the global economy recover from a devastating decline in economic growth.

Existing literature suggests that limited access to venture capital and microfinance from banks has adverse effects on entrepreneur’s ability to create any form of economic growth.

Shahzad et al.(2010:6) note that while entrepreneurs do indeed have the ability to play a vital role in the current financial scenario by creating job opportunities and amplifying economic growth through innovation, *“entrepreneurs usually rely on financing from banks”, “entrepreneurs are showing noteworthy concern about access over credit”* and that the *“American Express economic report for October 2008 highlighted that 63% of small businesses reported being impacted by tightening credit conditions.”*

Another observable trend in the domain of entrepreneurial research is the focus on entrepreneurial education. There is increasing emphasis on education as a way to alleviate poverty through utilising entrepreneurship as a catalyst for economic development and growth. Both entrepreneurship and entrepreneurship education have been the current focus of researchers, educators as well as public and private bodies. There seems to be a global mobilisation towards fostering an entrepreneurial culture which promotes opportunity identification and calculated risk-taking at early education levels. (Mason, 2008).

However, even this approach has limitations regarding the expansion of the global body of knowledge in entrepreneurship. El-Khasawneh (2008) argues that the main challenge in

Entrepreneurship education is that educators themselves are part of a society, that largely share the psychology of low-risk taking and systematic problem solving, resulting in a more conservative, uncreative and dull teaching method .

To date, Entrepreneurial Literature has failed to identify a succinct method for new venture success. Empirical research has merely shown the effect that entrepreneurship has on economic development in terms of job creation through new ventures and innovation. There is no consensus on the notion that an entrepreneurial culture can indeed be instilled in learners. Subsequently, research in the recent past has turned to observing the traits that successful entrepreneurs possess, and whether these can be acquired through being in an environment that promotes entrepreneurship or are genetically unique.

Burglund (2005), while attempting to describe key traits and driving forces of a successful entrepreneur, makes reference to Joseph Alois Schumpeter (1883-1950) and argues that he is the most influential economist in the field of entrepreneurship. According to Berglund (2005:2),

“The Schumpeterian Entrepreneur is an aristocratic character, part of a creative elite in capitalist society that is driven by a dream of founding a “private kingdom”, an intrinsic desire to succeed for the sake... of success itself”, who feels “the joy of creating” and “delights in ventures”.

Nicolaou et al. (2008) expand on the factors that create successful entrepreneurs by noting that genetic factors could influence the tendency of people to engage in entrepreneurship through a variety of complementary mechanisms. They suggest that certain genes induce pleasure from risk- taking activities. Therefore, like excessive gamblers, entrepreneurs have a tendency to take on high-risk- high-return ventures. Additionally, genes that promote extraversion in ones personality, incorporate several attributes, including sociability, gregariousness, talkativeness, and exhibitionism- all thought to be key traits of successful entrepreneurs.

Based on increasing awareness and understanding of the positive contribution that entrepreneurship has on the economy, most importantly, its ability to advance economic development and growth, local and international research is currently being focused towards government policies that engender and promote both entrepreneurship and Small, Medium and Micro Enterprise (SMME) development.

According to Walburn, (2005:2), *“Boosting entrepreneurship is perceived as a policy tool to address Europe’s deficit in high growth, small businesses, a means of getting very feeble economies moving, and a way to address the injustices of social and economic exclusion in richer countries.”*

In South Africa, O’Neill and Viljoen (2010) note that the country is in the process of implementing policies that are more flexible towards SMME’s, allowing them to play a more essential role in developing local economies through employment creation and endogenous growth. However, as with all policies, there are difficulties in implementation.

In a recent business report article, Jack (2011:3) suggested that there would certainly be challenges in the implementation of the proposed Job Fund, a government policy aimed at helping the private sector, including entrepreneurs, create employment in South Africa. He argues that, such policies may have an effect on employment, but, in the long run, highly regulated Employment Laws will have adverse effects on such policies.

Conclusion

The consequences of entrepreneurship, in terms of economic development, growth and performance have generated an extensive literature. Research has shown that entrepreneurship is responsible for employment creation, productivity growth and producing important spillovers that affect local employment growth rates of all companies in the region in the long run. (Van Praag and Versloot, 2007).

However, Ahmad and Hoffman (2008) argue that very few of these research efforts conceptually, empirically, or comprehensively capture and embody entrepreneurship itself. Moreover, they suggest that it is important to note that entrepreneurial and economic developments at the national level rarely provide for international comparability. Hence, research needs to be focused on developing an internationally recognised benchmark for measuring the multi-faceted phenomenon of entrepreneurship.

Shaoming et al. (2009:2) advocate the views of Ahmad and Hoffman (2008), by noting that previous literature focuses largely on the sheer quantity (breadth) of entrepreneurship but fails to seek a clearer understanding on the quality (depth) of entrepreneurship.

"Entrepreneurship quality stresses the portion of successful new ventures that have expanded rapidly over years, in sharp contrast to entrepreneurship quantity that is based entirely on gross firm formation and the total number of new businesses."

As noted earlier in the review, there is a vast scope in the Entrepreneurial sub- domain of policies that promote, engender and foster entrepreneurship for economic development. However, policymakers, scholars, researchers and practitioners first need to gain a deeper understanding of this phenomenon in order to develop and successfully implement effective policies.

Furthermore, Zahra and George (2002:25), suggest that *"there are tremendous opportunities for research in international entrepreneurship"*. According to their study, recent work in this area has helped create a clearer view and outline the importance of the emerging research stream in international entrepreneurship to include both new and corporate ventures.

Finally, entrepreneurial research should be directed at helping academia study emerging economies. Inclusion of these markets into the mainstream of entrepreneurship research offers an opportunity to expand the theoretical understanding of entrepreneurship and its relation to economic growth, both at national and international levels.(Bruton et al., 2008)

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