

Entrepreneurship and Economic Development: A Discourse on Selected Conceptual Issues

Momtaz Uddin Ahmed, Ph.D¹

Introduction

Entrepreneurship and economic development is one of the most widely discussed topics in the recent literature on development economics. This surge of academic interest and policy focus on the subject especially since 1990s underlines its importance as a vital determinant of economic growth. According to Schumpeter, J.A (1934) entrepreneurship is a driving force of innovation and more generally an engine for economic development. Entrepreneurs are believed to contribute to economic development and structural transformation in the economy by reallocating resources from less to more productive uses (Acs and Storey 2004) and by performing “cost cutting”, “gap-filling” and “input-competing” functions in the economy (Leibenstein, et. al. 1968, Hausman and Rodrik, 2003). Many other eminent economists and scholars including Adam Smith, J. B. Say, Alfred Marshall and Frank Knight also emphasize an entrepreneur’s role as a leader and organizer and coordinator of production and recognize entrepreneurship as a fourth factor of production.

Not surprisingly, entrepreneurship development has come to the centre stage of policy making in Bangladesh, a country striving hard to achieve middle income (MIC) status by 2021. The DCCI initiated project of creating 2000 innovative entrepreneurs with financial assistance of Tk. 1.0 billion from Bangladesh Bank is the most notable example in this regard. Indeed, introduction of an undergraduate programme by the Daffodil University authority is a pioneering example of patronizing entrepreneurship education and institutionalizing it at the higher education levels from the private sector. Launching of the “Freelancers to Entrepreneurs Programme” by the Government to develop freelancers engaged in outsourcing IT based jobs, business competition models like “The Startup Cup” by IBA etc. are other examples of encouraging youth entrepreneurship development in the country which also deserve special mention in the right direction towards creating pro-business environment. This exuberance displayed at both public and private sector levels towards entrepreneurship development, while appreciable, caution needs to be urged concerning the following issues. We need to ascertain who are “entrepreneurs” in our context, what type of entrepreneurs are prone to contribute to innovation, and how to support them through policies and institutions to maximize their potential contributions to the country’s overall economic growth. It is to discuss and analyze these issues we turn next.

¹ Professor (Honorary) of Economics, University of Dhaka. This paper was discussed at the Three Days workshop on Entrepreneurship held from 3rd to 6th May, 2015 at Daffodil International University.

Entrepreneurial Typologies and their Relevance in Different Contexts of the Developing Countries

Though entrepreneurship is commonly regarded as an important input of economic development, there is no universally acceptable definition of the term. There are too many definitions which rarely agree with one another and thereby render the task of providing a specific and unambiguous definition of the concept almost impossible. The available definitions vary considerably from country to country and at different stages of development in different countries. Based on a brief review of the existing ones, we try to provide an appropriate definition in the particular context of the developing countries².

The French economist Richard Cantillon is generally credited as being the pioneer to coin the concept in about 1730. He loosely identified entrepreneurship with “self-employment” of any type and the entrepreneurs as “risk-takers” in the sense that they purchased goods at any price in the present to sell at any uncertain prices in the future. It is not, however until 1934 when Joseph Schumpeter identified entrepreneurs as “innovators” who brought entrepreneurial changes within markets having five manifestations: (i) the introduction of new (improved) good, (ii) the introduction of a new method of production, (iii) the opening of a new market, (iv) the exploitation of a new source of supply and (v) the organization of new business management. In sum, Schumpeter’s definition equates entrepreneurship with innovation in the business sense, i.e. identifying market opportunities and using innovative approaches to commercially exploit them.

On a close scrutiny by many contemporary researches (Acs, Z.I. et. al. 2009; Marco Vivarelli, 2012) Schumpeterian entrepreneur is noted to be characterized as a coordinator of production and an agent of change. As argued by Audretsch (1995) entrepreneurship is about change, just as the entrepreneurs are agents of change. They identify opportunities, assemble required inputs and resources, implement an action plan, and raise the harvests in a timely, flexible manner. Innovation for Schumpeter was central to entrepreneurial activity and included the discovery of new products, new processes and new markets in response to exogenous shocks of new information. However, subsequent empirical research (Adam Szirmai, 2011) in the context of both developed and developing countries show that entrepreneurship is a “multi-faceted” process and not necessarily associated with innovation, productivity growth, and economic development.

Schumpeterian “innovative” entrepreneurs also coexist with “defensive” and “necessity” entrepreneurs who enter a new business not because of market opportunities and innovative ideas, but simply because they need an income to survive. This type of “distress pushed” or “survival driven” self-employment is particularly diffused in the developing countries. In these countries, poverty, unemployment and lack of economic opportunities in the formal wage sector often push people into entrepreneurial activities ranging from street vending to traditional and personal services, in most cases within the informal sector of the economy. This leads us to believe that there are alternative ways of

² For a comprehensive review of the major definitions, one may look at Nadim, A. et. al. “Defining Entrepreneurial Activity”, OECD (undated)

looking at the concept of entrepreneurship and binding it rigidly with the notion of entrepreneurship being synonymous with “innovation” will be narrow. In fact, later on (1943) Schumpeter himself modified his position since the generic term entrepreneur may include a population of very heterogenous “agents” consisting of real innovative entrepreneurs bringing in “creative destruction” together with “positive followers” bringing in overoptimistic and even “escapees” (self-employed) from positive unemployment. Hence adopting a provocative and/or rigid stance by regarding radical innovation and entrepreneurship as synonymous may lead to unfavorable consequences of overoptimistic implications (Baoumol, W. J. 1990).

Besides differences in the entrepreneurial types noted above, some other important issues also need to be highlighted which significantly influence entrepreneurial characteristics. At the macro level, three important types of entrepreneurial activities and/or enterprise types are distinguished by three influential sources. The ILO measures “self-employment”, the Global Entrepreneurship Monitor (GEM) measures start-up rates of “new firms”, and the World Bank measures “registration of new firms”. All these databases are noted to be concerned with formal vis-à-vis informal firms and their implications for types of relationship between entrepreneurship and economic development³.

As far as new firm formation is concerned, it is seen to be the outcome of both a host of objective economic pull factors (such as profitability and industry growth) as well as subjective and non-economic push factors including defensive drivers (i.e. uncertain future career prospects, escape from unemployment etc.). In determining new firm formation, these environmental drivers also interact with the potential entrepreneurs personal traits. For example, the potential entrepreneurs tend to be strongly influenced by specific psychological attitudes such as the need to achieve (termed “N-achievers” by David Maclelland 1965), desire to be independent, a locus of control, a search for autonomy in the workplace, a desire to be socially useful, and to acquire improved social status (Gladwin and others 1989). Batess (1993) held the view that availability of socio-cultural, financial, and educational support tend to determine the extent to which individuals with above traits will emerge as entrepreneurs⁴.

These personal traits are generally found to be strongly associated with entry into self-employment. While new start-ups are important for development of an entrepreneurial economy, one must not be simplistic to believe that all start-ups are successful and drivers of subsequent economic growth. On the contrary, many of them are also doomed to early failure and generate only temporary jobs. That entrepreneurship is more than new venture creation and it is a factor of production in its own right is also strongly supported by Acs and Storey (2004) in the sense that it improves allocation of resources and offers new products and services.

³ For details on these, see Wim Noude (2013)

⁴ For a succinct summary of divergent views on these issues, one may see Acs, Z. J. (2004)

Our discussion up to this point tends to support the view that entrepreneurship is a process or an act in which “the resource, process and state of being through and which individuals utilize positive opportunities in the market by creating and growing new business firms” (Neude, W. 2013). Corresponding to this view, I would prefer adoption of a broad operational definition of the term. It is defined as the process or act of identifying opportunities in the marketplace, mobilizing resources required to pursue these opportunities, and investing the resources to exploit the opportunities for long-term returns. More explicitly, it is the process of creating an enterprise, adding value, devoting necessary time and effort, assuming risks of uncertainty, and detaining rewards of monetary and personal satisfaction and independence.

Entrepreneurship and SMEs

Some SME enthusiasts regard SMEs and entrepreneurship as synonymous. No doubt, SMEs are important vehicles both for Schumpeterian entrepreneurs introducing new products and processes and owning “mom-and-pop” shops for mere survival but they are conceptually different. Entrepreneurial ventures may begin at any level of firm size and may consist of innovative combination of resources for profits (*Carland, J.W., et al. 1984*). As claimed by Schumpeter (1917), during the initial decades of the last century, entrepreneurship and small-scale start-ups tended to overlap, served as important sources of employment and income generation.

Scholars like Gallorath (1967) and Chandler (1977) convinced the economists, intellectuals, and policymakers of the post-war era that the future was in the hands of the large corporations and small businesses would fade away as the victim of their own inefficiencies. This was disproved especially in the entrepreneurial economies of globalized world where knowledge and technology emerged as the main sources of comparative advantage, and innovation and competitiveness became the main sources of economic power. Thus SMEs have always mattered to policymakers, especially in the developing countries confronted with the problems of unemployment, job creation, economic growth and international competitiveness in the global markets. There is ample evidence of economic activity moving away from large corporates to SMEs in the 1970s and 1980s particularly in the European continent⁵. As both causes and consequences of these shifts in policy emphasis towards SME promotion and growth, Acs (1992) identified four important consequences of SME growth:

- a) SMEs are vehicles of entrepreneurship development
- b) SMEs are routes of innovation
- c) SMEs are sources of industrial dynamism, and
- d) They are engines of job creation

⁵ A detailed documentation of this structural shift in the businesses (i.e. employment shares of large and small firms) is available in European Commission 2000, 2002, and Annual Global Entrepreneurship Monitor (GEM)

Evidence in support of these claims are also available from many countries in the developing world. For example, the small-scale artisan producers in Vietnam and microenterprises in the Ethiopian urban informal sector. Voeten et. al. and Gebreyesus et. al. (cited in Szirmai et. Al. 2011) noted that the SMEs possess significant innovation capacities which contribute to enterprise efficiency and economic growth⁶.

Women Entrepreneurship

Women entrepreneurship growth is well rehearsed in the recent literature of development economics (UN ESCAP 2012). Similarly, women entrepreneurs as a group are also demonstrating impressive business performance over the recent years. When given a level playing field, they display entrepreneurship skills and business success. They also share similar strong motivations to perform like their male counterparts.

But until recently, policymakers have not been in a position to remove the economic as well as non-economic barriers they face while starting new businesses and operating them profitably. Evidence to date from global scale tend to suggest that various forms of discrimination and disadvantages still confront them adversely and affect their entrepreneurial propensity and performance, compared to men (Ahmed, M. U., 2014). This situation is particularly serious facing potential as well as existing women entrepreneurs where their participation in business is still marginal and peripheral. Lack of access to adequate credit and other investable resources, adverse cultural and social barriers, laws prohibiting female ownership of properties, overall inferior socio-economic status etc. confront women with serious gender discrimination which stand in their way to excel in business performance. Hence, addressing these impediments will not only enhance women's opportunities to participate in economic pursuits but will also enhance their productivity and improve their general socio-economic status.

Entrepreneurship and Economic Development

A close relationship between entrepreneurship and economic growth is postulated theoretically by noting that it is a crucial driver of economic growth and social change. A vibrant entrepreneurial climate is claimed to provide new jobs, increase competitiveness, and produce novel goods and services. However, it is exceedingly difficult to find a direct and unambiguous empirical evidence on the issue. On the contrary, the relationship between economic growth and entrepreneurship appears to be shrouded with ambiguity.

Many researchers (i.e. Reynolds et.al. 2000, Audretsch, et.al. 2001) conducting empirical research based on a wider variety of countries and using appropriate measurement of entrepreneurial activities come up with positive correlation between the two parameters. In all such studies, a two-way causation between changes in the level of entrepreneurship and those in the level of economic development, called a "Schumpeterian" effect of entrepreneurship enhancing economic growth, particularly in the economically most advanced economies, is observed to exist. But in the cases of the developing countries, it

⁶ For elaborate exposition of the SME and entrepreneurship association debates, the reader is referred to Thurik and Sander (2004)

is seen as a “refugee” or “shopkeeper” effect of growth rates stimulating “self-employment”. This reminds us once again of the caveat that we have to be cautious about taking too simplistic views in the relationship between the rates of new firm formation and subsequent economic growth.

As noted earlier, many “start-up” resulting from “push effects” and low “entry barriers” may provide employment opportunities to their owners, but not to significant employment growth as such, let alone high economic growth. Thus, despite continued research initiatives being taken by various analysts, “remarkably little is known about the relationship between entrepreneurship and economic growth, including how it works, what determines its strength, and the extent to which it holds for diverse countries” (Thurik and Sanders, 2004).

There is, however, no denying the truth that economic growth hinges upon entrepreneurship. The degree of intensity of the correlation between the two forces may vary across countries and at various stages of their levels of development, but the two reinforces each other and helps economic growth and social well-being.

Conclusion and Recommendations

Growth and development of entrepreneurship in any economy and society is critically dependent upon the state of business enabling environment. Hence the central focus of entrepreneurship development policies should be to develop and maintain a business-friendly environment for the potential private sector entrepreneurs which may include the following:

- Reform of business regulatory environment leading to easy and low cost registration, licensing, and other business pursuing processes
- Facilitating easy and cheaper access to sources of seed capital to encourage new start-ups
- Ensuring formal property registration rights
- Simplification of tax policies and tax collection procedures
- Provision of credit information systems to facilitate SME access to credit markets
- Strong investor protection measures to assure safety measures for the potential SME investors such as angel investors and venture capitalists.
- Institutionalization of entrepreneurial education and skill development process through advising all general education and vocational institutes to incorporate entrepreneurship-focused courses in their curricula. Establishment of entrepreneurship development institutes may be more useful for developing countries like Bangladesh
- Paying special attention to the development of innovative and growth-oriented entrepreneurship

- Encourage female, youth, and rural entrepreneurs by running specially tailored courses of entrepreneurship training programmes and making provisions for business development service delivery systems

All these policy measures together aim at developing an “entrepreneurial economy” where entrepreneurship development prospects constantly emerge, create incentives for constantly looking for business opportunities, intensify enterprise education and awareness campaigns among individuals, and develop positive attitudes towards entrepreneurship, innovation, and competitiveness.

True, “entrepreneurs are born, not created”, but proper support and incentive policies can be instrumental in enhancing the supply of entrepreneurial stock in a developing country such as Bangladesh. In particular appropriate training and education facilities can go a long way to encourage growth and development of entrepreneurship and achieve faster economic growth.

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