

IMPACT OF ENTREPRENEURSHIP AND SOCIAL ENTREPRENEURSHIP ON ECONOMIC GROWTH AND SOCIAL VALUES

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Abstract

This paper makes an attempt to investigate that social entrepreneurship should be included as an important factor for socio-economic growth. Entrepreneurship is basically the practice of starting a business to earn profit on new found opportunities. Ideas and concepts that emerge from entrepreneurs speed up innovation of new products in the market because of efficient nature of entrepreneurs. This paper addresses the impact of entrepreneurship on economic growth, reviews and evaluates the various recent literatures on how entrepreneurial performance depends on the entrepreneurial teams. Creation of new business opportunities through entrepreneurship, innovation and productivity leads to economic growth. This therefore means that when there is more entrepreneurship in an economy more growth is expected. Social Entrepreneurship involves recognizing opportunities, triggering positive change in various domains, combining and mobilizing resources and building sustainability. This paper focuses on defining new possible roles and strategies for entrepreneurs, addresses social need to companies and contributing to sustainable development.

Keywords: Entrepreneurship, Social Entrepreneurship, Socio-economic growth, Sustainable Development

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Introduction

Most of the economists at present have not yet shown interest in entrepreneurship as primary instrument of long term economic growth. There has been some fascinating literature attempting to carry on the work of predecessor economist, providing a role for entrepreneurs to play in the economy. In previous literature, the entrepreneur often has been ill- defined. The confusion falls into two categories. First, there has been tendency to treat entrepreneur and entrepreneurship as interchangeable which shapes the distinction between the entrepreneur as an economic agent and entrepreneurship as a system that consists of entrepreneurs, all of which influence and constrain entrepreneurs' economic behaviour. There has been a wealth of knowledge on the determinants of entrepreneurship over the last few decades. Although studies bringing forth this knowledge have rather been based on theoretical grounds, others have been drawn from empirical evidence. Scholars have also been keen in investigating the impact of entrepreneurship on economic growth which has further led to the explosion of extensive literature in this field. The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important inputs in the economic development of a country. The entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. He plays a pivotal role not only in the development of industrial sector of a country but also in the development of farm and service sector. Entrepreneurs promote capital formation by mobilising the idle savings of public. They employ their own as well as borrowed resources for setting up their enterprises.

Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. The growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education, entertainment, etc. Setting up of more industries leads to more development of backward regions and thereby promotes balanced regional development. Economic power is the natural outcome of industrial and business activity. Industrial development normally leads to concentration of economic power in the hands of a few individuals which results in the growth of monopolies. In order to redress this problem a large number of entrepreneurs need to be developed, which will help reduce the concentration of economic power amongst the population.

Social entrepreneurship is about using entrepreneurial skills to craft innovative responses to social problems. It aims at social impact but does not exclude economic wealth creation. Social

entrepreneurship involves recognizing opportunities, creating positive changes in various domains, combining and mobilizing resources, and building sustainability. Social entrepreneurship act as an alternative paradigm to combine social and economic value creation and to acts as the Base of the Pyramid.

Literature Review

Schumpeter (1950; 1961) famously defined the entrepreneur as the coordinator of production and agent of change ('creative destruction'). As such the "Schumpeterian" entrepreneur is above else an innovator. Scholars who share this view of entrepreneurship do not consider entrepreneurship to be very important in earlier stages of economic development – they see the contribution of entrepreneurship to be much more important at later stages of development, where economic growth is driven by knowledge and competition. Kirzner (1973) views the entrepreneur as someone who facilitates adjustment to change by spotting opportunities for profitable arbitrage (and 'disequilibrium' situations in the market). This view has resonated among scholars who emphasize the opportunity-grabbing-for-profit nature of entrepreneurship (Shane and Ventakaram 2000) particularly in developing countries where market disequilibria may be common. According to Baumol (1990:895) entrepreneurial ability can be allocated towards productive, unproductive, or even destructive activities. He defines entrepreneurs as 'persons who are ingenious and creative in finding ways that add to their own wealth, power, and prestige'. Underdevelopment is not due to an insufficient supply of entrepreneurs, but due to institutional weaknesses that result in a "lack of profit opportunities tied to activities that yield economic growth" (Coyne and Leeson 2004:236). In economic theory entrepreneurship has been modelled as an occupational choice between self-employment and wage-employment (see Lucas 1978, Evans and Jovanovic 1989, Murphy et al. 1991). Hence someone will become an entrepreneur if profits and the non-pecuniary benefits from self-employment exceed wage income plus additional benefits from being in wage employment. Entrepreneurship is thus often synonymous with self-employment. Because self-employment is often not by choice but by necessity, a distinction is often made in between necessity and opportunity entrepreneurs – as in for instance the Global Entrepreneurship Monitor (GEM – see Reynolds et al. 2005). In Rada (2007) entrepreneurs 'trigger' an investment in the modern sector once they have perceived profitable opportunities and facilitate the re-allocation of production factors from the traditional to the modern sector. Peretto (1999) provided a modified endogenous growth model that implied

long-run structural transformation depends on the degree to which an economy can make a transition from a growth path driven by capital accumulation ('the Solow economy') to a growth path driven by knowledge accumulation (the 'innovation-driven' economy). Murphy et al (1991) provided a model that described firm size and the growth of the economy as a function of entrepreneurial ability. Nelson and Pack (1999) assigns a key role to the 'effectiveness of entrepreneurial ability' which they see as a vital determinant of the rate of assimilation of technology (1999:420) – as in Michelacci (2003) where entrepreneurial ability is vital for R&D. Vijverberg (2004) summarize recent research on the returns to education in entrepreneurship in order to compare the estimated effects of education in employment and entrepreneurship, respectively. They find that the returns to education are smaller for entrepreneurs than for employees in Europe, but larger in the United States. Only with such an approach can researchers and policymakers identify the factors that are distinctive to entrepreneurial success. Johnson's (1990) review of previous studies suggests that need for achievement accounts for approximately 7% of the variation in new venture performance. However, this estimate is taken from a secondary analysis of multiple studies with widely varying measurement strategies and controls for alternative explanations for venture performance. Sandberg and Hofer (1987) found that industry and organizational characteristics were substantially stronger predictors of venture success than individual level characteristics. Van Praegt et al. (2007) found that entrepreneurs were more willing to gamble than employees, and that risk taking individuals were more likely to choose to become entrepreneurs. However some scholars argue that the distinction between positive approaches to risk taking and optimism is blurry, and that since there is research that tells us that entrepreneurs interpret their environments more positively than non-entrepreneurs (Palich and Bagby 1995; Norton and Moore, 2002) it is difficult to analytically distinguish true risk attitudes from overoptimism with regard to risk outcomes. Gimeno, Folta, Cooper and Woo (1997) find that prior entrepreneurial experience makes the entrepreneur more likely to shut the venture at a given level of performance and hence are less persistent in a given venture; this may reflect a disposition toward serial entrepreneurship, but may also reflect a superior ability to know when to quit. It is commonly argued that social entrepreneurs have to develop practical and innovative solutions, given their lack of resources and the scale of the problems they aim to address. However this is no different from commercial entrepreneurs who, being also resource

constrained and aiming to address significant societal problems, also need to be innovative and practical often “creating something from nothing”(Baker & Nelson, 2005) .

Objectives of Study

Present paper addresses the impact of entrepreneurship on economic growth and focuses on the investigation of role of entrepreneurs in socio-economic growth. New possible roles and strategies for entrepreneurs are developed which are contributing to sustainable development and established companies to address social needs creating social values.

Methodology

Social entrepreneurship as a practice has a long history; however as a field of study and teaching it is quite new. This paper is based on a broad and extensive reading of the literature on entrepreneurial performance. Articles were identified through a variety of methods, including journal searches, the tracing of citation patterns and internet searches for unpublished working papers.

Role of entrepreneur in socio- economic development

The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important inputs in the economic development of a country. The entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. He plays a pivotal role not only in the development of industrial sector of a country but also in the development of farm and service sector. Entrepreneurs promote capital formation by mobilising the idle savings of public. They employ their own as well as borrowed resources for setting up their enterprises. Such type of entrepreneurial activities leads to value addition and creation of wealth, which is very essential for the industrial and economic development of the country. Entrepreneurs provide immediate large-scale employment to the unemployed which is a chronic problem of underdeveloped nations. With the setting up of more and more units by entrepreneurs, both on small and large-scale numerous job opportunities are created for others. As time passes, these enterprises grow, providing direct and indirect employment opportunities to many more. In this way, entrepreneurs play an effective role in reducing the problem of unemployment in the country which in turn clears the path towards economic development of the nation. Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. The

growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education, entertainment, etc. Setting up of more industries leads to more development of backward regions and thereby promotes balanced regional development.

Economic power is the natural outcome of industrial and business activity. Industrial development normally leads to concentration of economic power in the hands of a few individuals which results in the growth of monopolies. In order to redress this problem a large number of entrepreneurs need to be developed, which will help reduce the concentration of economic power amongst the population. It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas, thus giving benefit to larger sections of the society. Entrepreneurial activities also generate more activities and give a multiplier effect in the economy. Entrepreneurs are always on the lookout for opportunities. They explore and exploit opportunities, encourage effective resource mobilisation of capital and skill, bring in new products and services and develops markets for growth of the economy. In this way, they help increasing gross national product as well as percapita income of the people in a country. Increase in gross national product and per capita income of the people in a country, is a sign of economic growth.

Increase in the standard of living of the people is a characteristic feature of economic development of the country. Entrepreneurs play a key role in increasing the standard of living of the people by adopting latest innovations in the production of wide variety of goods and services in large scale that too at a lower cost. This enables the people to avail better quality goods at lower prices which results in the improvement of their standard of living.

Entrepreneurs help in promoting a country's export-trade, which is an important ingredient of economic development. They produce goods and services in large scale for the purpose earning huge amount of foreign exchange from export in order to combat the import dues requirement. Hence import substitution and export promotion ensure economic independence and development. Entrepreneurs like to work in an environment of change and try to maximise profits by innovation. When an enterprise is established in accordance with the changing technology, it induces backward and forward linkages which stimulate the process of economic development in the country. Entrepreneurs act as catalytic agent for change which results in chain reaction. Once an enterprise is established, the process of industrialisation is set in motion. This unit will generate demand for various types of units required by it and there will be so many

other units which require the output of this unit. This leads to overall development of an area due to increase in demand and setting up of more and more units. In this way, the entrepreneurs multiply their entrepreneurial activities, thus creating an environment of enthusiasm and conveying an impetus for overall development of the area.

Impact of economic development on entrepreneurship

The relationship between unemployment and entrepreneurship has been covered with ambiguity. On the one hand, one strand in the literature has found that unemployment stimulates an entrepreneurial activity, which has been termed as a “refugee effect”. On the other hand, a very different strand in the literature has been identified that higher levels of entrepreneurship reduce unemployment, or what has been termed as a “Schumpeter effect”. Throughout intellectual history, the entrepreneur has worn many faces and fulfilled many roles. In this section we focus on three entrepreneurial roles, emphasized by Schumpeter, Kirzner and Knight, respectively. Schumpeter was the economist who has most prominently drawn attention to the ‘innovative entrepreneur’. He carried out ‘new combinations we call enterprise; the individuals whose function is to carry them out we call entrepreneurs’ (Schumpeter, 1934). When an individual introduces a new product or starts a new firm, this can be interpreted as an entrepreneurial act in terms of each of the three types of entrepreneurship. Ideas and concepts that emerge from entrepreneurs increase our knowledge and what consumers may prefer through introducing variations of existing products and services in the market. This speeds up innovation of new products in the market as a result of the longer working hours and more efficient nature of entrepreneurs as their income is directly linked with their working input. Entrepreneurship leads to introduction of new goods with new quality and value. Their innovativeness introduces new ways of production and new markets that have not been exploited. It is through entrepreneurship that new source of supply are discovered and creation of new business organisations that directly affect the economy. Creation of new business opportunities through entrepreneurship, productivity and innovation leads to economic growth. This therefore means that when there is more entrepreneurship in an economy more growth is expected.

In terms of how entrepreneurship has been a stimulant in economic growth, there exist enormous discussions and debates but it is however eminent to realize the importance of constant innovations and rivalry enhancement. There has been a problem in defining and measuring entrepreneurial factors and this has further complicated the exact contributions to economic

growth. Entrepreneurship is multidimensional and largely ill defined. Understanding the role of entrepreneurship in the process of economic growth will therefore require a framework because of the nature of intermediate variables and connections which exist. The best examples of these intermediate variables include innovation, competition mainly characterized by exit and entry of firms, variety of supply and particular energy and efforts of invested by entrepreneurs. Other conditions of entrepreneurship also add up when it comes to their contributions to economic growth.

Conclusion

Despite a large number of studies examining entrepreneurial performance, it is difficult to draw any strong inferences about what characteristics of entrepreneurs and senior team are conducive to new venture performance. Entrepreneurship role in development leads to three novel realizations: First it provides fresh perspectives on three of the “grand” ideas in development economics; second, entrepreneurship influences development outcomes positively as well as negatively; and third, entrepreneurship is in turn significantly determined by the dynamics of development. Entrepreneurship is therefore a valid and important subject of study for development scholars, and development is a worthwhile subject of study for entrepreneurship and management scholars. Results confirm that entrepreneurship has a significant impact on economic growth as has been generally established. Consequently entrepreneurship should be included as an independent factor in economic growth. Entrepreneurship causes economic growth by fostering innovation within a given society. The only factor significantly interacting with entrepreneurship was research and development spending, itself reflective of innovation (van Praag and Versloot, p.354). The purpose of this paper has been to identify common patterns across a small set of successful social entrepreneurship initiatives. The more we know about the range of forms that social entrepreneurship may take, and the contexts within which such forms are effective, the more it will be possible to design initiatives to fit circumstances in the future.

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