ENTREPRENEURSHIP, ECONOMIC DEVELOPMENT AND INCLUSIVE GROWTH

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CITATION: Abosede, A. J., & Onakoya, A. B. (2013). Entrepreneurship, economic development and inclusive growth, *International Journal of Social Sciences and Entrepreneurship*, 1 (3), 375-387

ABSTRACT

Entrepreneurship and economic development in the opinion of Schumpeter are intimately related notwithstanding the form of economic and political set-up of a country. In essence, entrepreneurship is indispensable for economic development. The growing interest in the area of entrepreneurship has extended to a balanced and broad-based economic growth and development as requirements in the structural transformation of the economy. The crux of the paper is to examine the role of entrepreneurship in encompassing economic development especially inclusive growth. The research finds that entrepreneurship promotes economic growth. However, where credit subsidies for start-ups dilute the quality of the entrepreneurial pool, this will adversely affect economic growth. The study recommends that government puts in place entrepreneurship - promoting policies with positive externalities thereby enhancing high economic growth and development. Entrepreneurial programmes should also incorporate participatory monitoring mechanisms in order to ensure that industrial and commercial policies continually reflect the priorities of the vulnerable and poor people.

Key Words: *Entrepreneurship, Economic Development, Inclusive growth*

Introduction

The word entrepreneur which has its origin in French economic growth language refers to an organiser of musical or other entertainment. An entrepreneur is a person who has already started or is in the process of starting an enterprise. Schumpeter (1934) defines an entrepreneur as an innovator who brings economic development through new combinations of factors of production. Entrepreneurship is a purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or organize profit oriented business unit for the production and distribution of economic goods and service.

Entrepreneurship as a process gives people more jobs, creates new inventions and ideas, increases/stimulates national income consequently having the potential of affecting economic development. The process of entrepreneurship brings about better standard of living and regional development. As globalisation reshapes the international economic landscape and technological change creates greater uncertainty in the world economy, entrepreneurship is believed to offer ways to help to meet new economic, social and environmental challenges.

Entrepreneurship is viewed as a key aspect of economic dynamism during economic crisis which are historically times of industrial renewal or creative destruction, as less efficient firms fail while more efficient ones emerge and expand (Schumpeter, 1942). New business models and new technologies, particularly those leading to cost reductions, often emerge in downturns. Entrepreneurship with innovation as one of the elements is a vehicle to return the economy to a period of sustained economic growth. The dynamic process of new firm creation introduces and disperses innovative products, processes and organisational structures throughout the economy.

However, the lack of internationally comparable empirical evidence has constrained the understanding of entrepreneurship and many questions remain unanswered. This arises from the fact that entrepreneurship objectives and policies differ considerably among countries, owing to different policy needs and diverse perspectives on what is meant by entrepreneurship. In some countries, entrepreneurship is linked to regional development programmes in which the creation of new firms is stimulated to boost employment and output in depressed regions. Some countries seek to increase the formation of firm while others set out to support high-growth firms. In some other countries, entrepreneurship is a key strategy device to facilitate the participation of certain target groups, such as women or minorities, in the economy.

The World Bank (2008a) reported that policies for inclusive growth have been deployed as an important component of the strategies for sustainable growth by most governments. This is in the light of the findings by the World Bank (2008) that Zambia has grown rapidly over a decade but not seen substantial reduction in poverty rates. It therefore recommends the need for countries to focus specifically on the equality of opportunities for individuals and firms by providing avenue for entrepreneurial pursuit.

Emanating from this, the paper is set to conduct a synthesis of the literature on the relevance of entrepreneurship as strategy to promoting inclusive growth which seeks to bring into productive loop, such segments of the economy hitherto neglected. The rest of the paper is organized as follows: section two deals with the conceptual framework and literature review. The third section covers analysis while section four proffers recommendations and concludes.

Conceptual Framework and Review of Literature

Entrepreneurship

The entrepreneurial function, otherwise called entrepreneurship, implies the detection, evaluation and taking advantage of opportunities which may be in the form of new products, services or production processes; new strategies and organizational forms and new markets for products and inputs that did not previously exist. (Shane and Venkataraman, 2000). Entrepreneurial opportunities subsist given the fact that different economic agents perceive different ideas on the relative value of resources or when resources can be converted from inputs into outputs. Alvarez and Busenitz (2001) argue that the theory of the entrepreneur focuses on the heterogeneity of beliefs about the value of resources. The creation of a new economic organisation is seen by Reynolds (2005) as the consequential result of entrepreneurial function arising from the discovery of opportunities. The absence of market for opportunities makes it imperative for the entrepreneur to develop his or her capabilities to exploit such break-through. Frankel (1962), one of the earliest proponents of the endogenous growth theory argued that the aggregate production function can exhibit a constant or even increasing marginal product of capital. When firms accumulate more capital, some of that increased capital will be the intellectual capital that creates technological progress. This technological progress will offset the tendency for the marginal product of capital to diminish given the difficulties involved in protecting ownership rights of ideas that are not associated with patents or copyrights.

Discussion on entrepreneurship which is sometimes referred to as the entrepreneurial 'spirit' is often conducted under the designation of the entrepreneurial factor, the entrepreneurial function, entrepreneurial initiative, and entrepreneurial behaviour. The entrepreneurial factor is understood to be a new factor in production that is different from land, labour and capital, which must be explained through remuneration for the entrepreneur.

The behaviour of the entrepreneur in the opinion of Miller (1983) is the combination of the classic theories of Schumpeter's (1934, 1942) innovation and the risk-taking entrepreneur of Knight (1921). The entrepreneurial initiative involves the correct anticipation of the gaps in the market arising from imperfections thereof or the capacity to innovate in order to create a new combination / alternative use for existing products. In essence, it covers the concepts of creation, risk-taking, renewal within or outside an existing structure.

The decision whether to start a business is determined by entrepreneurial framework conditions which are the additional characteristics within the existing business environment. The conditions consist of a country’s capacity to encourage start-ups, combined with the skills and motivations of those who wish to go into business for themselves. The combination of these two conditions affects the economics of the entrepreneurial process leading to off-shoot businesses. This, in turn will increase innovation and competition within the marketplace. The end result is a positive influence on national economic growth.

The entrepreneur innovates and can undertake any type of the following five categories of innovation. i) the introduction of a new good or a new quality of a good; ii) the introduction of a new method of production; iii) the opening of a new market; iv) the conquest of a new source of supply of raw materials and the carrying out of a new organisation of any industry. The model of growth which deals with the incorporation of the entrepreneurial factor of parts of the society hitherto ensnared in low-productivity activities or completely excluded from the growth process is presented in the next section.

Inclusive Growth Model

Inclusive growth focuses on both the pace and pattern of growth. A high pace of growth over extended periods of time is a necessary, and often the critical contributing factor in reducing poverty (Bourguignon, 2003). However, for this growth to be sustainable in the long run, it should be broad-based, across sectors and inclusive of the large part of the country’s labour force.

The inclusive growth model deals with increasing the pace of growth and expansion of the size of the economy. In addition, it levels the playing field for investment and also increases the opportunities for productive employment. It focuses on the analysis of the constraints to sustained high growth and explores openings for raising the pace of growth. The latter is achieved by utilizing more fully, parts of the labour force which are ensnared in low-productivity activities or completely excluded from the growth process.

The quest for a sustainable, balanced and broad-based economic growth and development requires the structural transformation of the economy (Aghion, Bloom, Blundell, Griffith, & Howitt, 2005), Aghion, and Howitt (1992) and Romer, 1990). In the absence of such economic transformation and diversification, Imbs and Wacziarg (2003) argue that no country has been able to achieve significant income growth and poverty reduction. Although involved in generation of productive employment instead of direct income redistribution, in order to increase the incomes of excluded groups, Ianchovichina and Lundstrom (2009) suggest redistribution schemes may be necessary in the short term. Inclusive growth includes but extends pro-poor growth; it involves 'increasing the size and economic commend of the middle class'. The assumption is that growth which is beneficial for the large majority of people in developing countries is more likely to be economically and politically sustainable (Birdsall, 2007).

A cross-country study by Kraay (2004) shows that growth in average incomes explain 70 percent of the variation in poverty reduction (as measured by the headcount ratio) in the short run, and as much as 97 percent in the long run. Furthermore, The Commission on Growth and Development (2008) set up by The World Bank, observed that the main instruments for a sustainable and broad based growth are productivity and employment growth. Productivity growth has the potential to lift the wages of those employed by all types of firms and the reward to the self-employed from self-employment. The employment growth on the other hand, generates new jobs and income for the individual. Hence, inclusive growth is not only about employment growth, but also about the enhancement of productivity.

The ability of individuals to be productively employed depends on the opportunities open to him to make full use of available resources in the economy. The inclusive growth model on the labour supply side examines the ways to strengthen the productive resources available and the competence of the individual. It also examines new opportunities for productive employment, either by self or others, on the labour demand side.

Hausmann, Rodrik, and Velasco (HRV) (2005) developed a heuristic approach to identifying the most binding constraint to growth. This limiting factor, in order to increase the chance of a positive welfare effect, should possess the largest shadow price. They used a decision tree framework based on the "Euler equation" or "Keynes-Ramsey rule". This takes into consideration most of the critical factors affecting growth of an economy in the short-run which is also applicable in the case of balanced growth equilibrium (see equation 1).

$$\frac{\dot{k}_t}{kt} = \frac{\dot{c}_t}{ct} = \sigma(c_t)(r_t(a_t, \theta_t, x_t)(1-\tau_t) - \rho) \qquad (1)$$

where:
c = consumption per capita
k = capital per worker
a = technological progress
θ = index of externality
x = availability of complementary factors of production, e.g. infrastructure and human capital
τ = the tax rate
$\rho = (z+n)$ is the real interest rate
n = population growth
z = the rate of time preference
σ = the inverse of the negative of the elasticity of marginal utility

The economy is considered liquidity constrained, if the cost of capital 'ρ' is high for any return on investment and the investment is low. On the other hand, if the rate of return 'r' is low, for any cost of capital and the investment is low, the economy is considered inefficient. The cost of finance ρ may be high because the country has limited access to external capital markets or because of problems in the domestic financial market. A country may have difficulties accessing external capital markets for a variety of reasons including high country risk, unattractive FDI conditions and debt over-hang. The poor access to domestic finance may be due to low domestic saving and/or poor domestic financial intermediation (The World Bank, 2008).

Of particular interest to this study is the return of capital 'r' which may be low due to insufficient investment in complementary factors of production, such as infrastructure and human capital (entrepreneurship), low land productivity due to poor natural resource management, low private returns to capital due to high taxes, poor property rights, corruption, labour-capital conflicts and macroeconomic instability. Market failures, such as coordination externalities and learning externalities also negatively affect the country's ability to adopt new technologies. These have implications for entrepreneurial effectiveness.

The strategies for achieving faster growth with greater inclusiveness involves several interrelated components as articulated in the Indian Eleventh Five Year Plan, it includes revival in agricultural growth which is the most important single factor affecting rural prosperity. The improved access to essential services in health and education (including skill development) especially for the poor was essential to ensure entrepreneurial inclusiveness and also to support rapid growth. This is in addition to special attention being planned and given to the needs of disadvantaged groups (Planning Commission Government of India (2007). The question of the importance of entrepreneurship to economic development which has plagued economists for a long time is discussed in the next section.

Discussions

Significance of Entrepreneurship to Economic Development

The relationship between entrepreneurships, corporations, and economic development is complex and literature is replete with conflicting findings on this link. Sierdjan and Shailendra (2008) analyse this possible link between entrepreneurship and the development of the economy for India using the Global Entrepreneurship Monitor (GEM)-model as a reference. With the a priori expectation of declining rates of entrepreneurship, as economic development opens up employment possibilities decreasing the number of necessity entrepreneurship. Their study for India was contrary. Rather, entrepreneurship which appears to be an important driver of recent economic growth can be explained by the fact that India is very much a service-based economy that facilitates small-scale firms. Although the level of entrepreneurship has risen over time, the quality of the small firms remains rather stable.

Acs (2007) sought to answer the question of whether entrepreneurship is good for economic growth. The answer by the study is shaped by the definition of entrepreneurship. If the meaning of entrepreneurship is self-employment either in agriculture or very small scale industry, then in most cases, the study contended that entrepreneurship will not lead to economic development because there is no mechanism to link the activity to development. This is due to the fact that as postulated by Adam Smith (1776), when the division of labour increases, so will economic development. Therefore, self-employment declines as economies become more developed. However, entrepreneurship when combined with the strength of established corporations do vary in beneficial value to economic growth as measured by GDP per capita. At low levels of national income, self-employment provides job opportunities and scope for the creation of markets. As GDP per capita income increases, the emergence of new technologies and economies of scale allow larger and established firms to satisfy the increasing demand of growing markets and to increase their relative role in the economy.

Utilising the triangulation approach which as advised by Saunders, Lewis, and Thornhill, (2009), is the use of different data collection technique within one study in order to achieve a more accurate research, Venesaar and Loomets (2006) analyse development of entrepreneurship in Estonia. Their research drew empirical evidence from statistical databases and two large-scale telephone surveys undertaken in 2002 and 2005. The study detects large fluctuations in the creation of new enterprises across counties and economic activities, indicating the need to direct entrepreneurship policy especially to support counties and activities with below the average firm formation rates.

Naudé (2011) investigated the interesting question of whether entrepreneurs can contribute to national happiness. The answer provided is both yes and no. The empirical relationship between happiness and entrepreneurship across nations is found to exist in an inverted U-shape, which up to a certain level, an increase in entrepreneurship will be associated with an increase in national level happiness, after which it would be associated with a declining level of happiness.

Muhammad and Ramzan (2012) critically analyzed whether the impact of the Total Entrepreneurial Activity (TEA) rate on economic growth stands the test of adding competing variables and concludes that entrepreneurship plays an important role where credit subsidies for start-ups dilute the quality of the entrepreneurial pool with adverse spill-over effects on good entrepreneurs.

Entrepreneurship and Inclusive Growth

The concept of inclusive growth implies a direct link between the macro and micro determinants of growth and captures the importance of structural transformation for economic diversification and competition. The micro dimension includes the structural transformation of the society. The macro dimension involves the management of the country's Gross National Product (GNP) and Gross Domestic Product (GDP) and the achievement of key human development index.

The need for inclusive, encompassing growth is not confined to the developing countries alone. Inclusive entrepreneurship plays a significant role in achieving the Europe2020 employment which targets 75% of the population aged 20–64 to be employed; 3% of the EU's GDP should be invested in R&D.; The '20/20/20' climate and energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right;. the share of early school leavers should be under 10%, and at least 40% of the younger generation should have a tertiary degree and 20 million fewer people should be at risk of poverty). A significant share of new jobs in the EU is created by newly established firms and almost 85% by micro-firms. These firms generate on average nearly two jobs, in some member states up to three (Federal Ministry of Labour and Social Affairs - Germany (2012).

The third of the eight objectives of the Millennium Development Goals (MDG) is the elimination of gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015(The World Bank, 2000). The consideration of inclusive growth can therefore not be complete without considering gender issues. Vossenberg (2013) submits that in spite of the growing number of women-led businesses and a significant increase of initiatives, policies and resources designed to promote and develop women's entrepreneurship, the gender gap in entrepreneurship persists. This paper addresses two questions: Why does the gender gap in entrepreneurship persist? Secondly, what does the literature suggest to us about the best ways to promote women's entrepreneurship? Based on a feminist perspective, this paper argues that current women entrepreneurship promotion policies undoubtedly benefit individual women but when the gender bias in the context in which entrepreneurship is embedded is left intact, efforts may remain in vain and without any significant macroeconomic or social impact.

Bhattacharya (2013) examines the importance of imparting the knowledge of entrepreneurship to women as well as encouraging the youth (both male and female) to reduce gender inequality and provide more economic opportunities to people to have an inclusive growth in the economy. The findings suggest that entrepreneurship can be an effective means to create employment and empower women in the family and wider community. Training in skills is necessary but is not enough. Developing a supportive environment for women's entrepreneurship is important for women's success in order to achieve growth with development

Countries with a high degree of financial exclusion also show higher poverty rations and higher inequality. This is the position of Chakrabarty (2009), who identified access to financial resources as the key driver of small and medium enterprises if they would be covered by inclusive growth. He states that the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost should form a critical focus of monetary authorities.

Conclusions

Arising from the discussions in the previous section of entrepreneurship and development, as people find stable employment, the Gini Index will decrease. Increases in income will expand the role played by the entrepreneurial sector when individuals have the resources to go into business for themselves in a business environment that allows the exploitation of opportunities. In high-income economies, through lower costs and accelerated technology development, entrepreneurial firms enjoy through lower costs and accelerated technological development and entrepreneurial firms enjoy a newly acquired competitive advantage. These inclusive programmes will have positive consequences for economic growth and development.

Arising from this, the paper suggests that the government puts in place entrepreneurship-promoting policies with positive externalities, thereby, enhancing high economic growth and development. Entrepreneurial programmes should incorporate participatory monitoring mechanisms in order to ensure that industrial and commercial policies are reflecting the priorities of vulnerable and poor people (e.g. women, smallholders, informal traders, micro-entrepreneurs). Furthermore, provision of credit subsidies for start-ups and on-going businesses should be carefully calibrated in order not to dilute the quality of the entrepreneurial pool with adverse spill-over effects on good entrepreneurs. Partnerships between government and the private sector is also suggested for active consideration since there will be an increasing number of profit and not-for profit business organisations involved in teaching more of the low-income population and those who live in more remote areas to “know how to fish”.

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