

# A Study on the Role of Entrepreneurship in Economic Development

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**Abstract** - Entrepreneurship has been the resurgent in countries that achieved substantial poverty reduction. Entrepreneurship is the engine of economic growth of a country, as it increases the economic activities in every sphere of economic life of the people. Entrepreneurship is a key contributor in the area of employment generation, innovations and product improvement. Not only does it create self-employment, but it has also built a structure for large-scale employment opportunities. It contributes to the economic growth by promoting capital formation, increasing per capita income, improving the standard of living and balanced growth by removing regional disparities. Entrepreneurship refers to all those activities which are to be carried out by a person to establish and to run the business enterprises in accordance with the changing social, political and economic environments. Entrepreneurship includes activities relating to the anticipation of the consumers likes and dislikes, feelings and behaviours, tastes and fashions and the initiating a business ventures to meet out all these expectations of the consumers. Entrepreneurship is considered as a 'new product' that would enable businessmen to develop new form of business organization and new business activities catering to the changing needs of the society. Entrepreneurship is the ability of entrepreneurs to assess the risks and establish businesses, which are risky but at the same time suits perfectly to the changing scenarios of the economy. Entrepreneurship development depends upon the environment (both external and internal) within which the entrepreneurs have to do their business. Entrepreneurs are closely associated with the existing as well as the past entrepreneurial activities of the society. Business opportunities are identified from the social, political, and economic crisis and in turn these crises become the favourable climate for the entrepreneurs to innovate new business ventures. From this perspective, it is true that entrepreneurial activities are the resultant efforts of the prevailing entrepreneurship development programs.

**Index Terms** - Entrepreneurship, Employment Generation, Capital formation, Economic Growth.

## INTRODUCTION

An entrepreneur is an important agent of economic growth. Basically, an entrepreneur is a person who is responsible for setting up a business or an enterprise. According to J. Schumpeter "he is the one who will take the initiative, involves in innovation and looks for high achievements. He is a catalytic agent of change and works for the welfare of people". The entrepreneur is a critical factor in the socio-economic change. He is the key man who envisages new opportunities, new techniques, new lines of production, new products and coordinates all other activities. The term 'entrepreneur' is defined in different manners by different experts. "Entrepreneur is one who innovates, raises money, assembles inputs, chooses managers and sets the organisation going with his ability. Commercial application of invention is said to an Innovation, which is the prime function of an Entrepreneur. Innovation occurs through i) Introduction of a new quality in a product of ii) new product iii) discovery of fresh demand and fresh sources of supply and iv) by change in the organisation and management".

An entrepreneur is expected to perform the following functions.

- a. Risk Absorption: The entrepreneur assumes all possible risks of business. A business risk involves the risk due to the possibility of changes in the tastes of consumers, techniques of production and new inventions. Such risks are not insurable. If they materialise, the entrepreneur has to bear the loss himself. Thus, Risk-bearing or uncertainty-bearing still remains the most function of an entrepreneur. An entrepreneur tries to reduce the uncertainties by his initiative, skill, and good judgment.

- b. **Formulate Strategic Business Decisions:** An entrepreneur has to decide the nature and type of goods to be produced. He enters a particular industry which offers the best prospects and produces whatever commodities he thinks will pay him the most. He employs those methods of production which seem to him the most profitable. He effects suitable changes in the size of the business, its location, techniques of production and does everything that is needed for the development of his business.
- c. **Execute Managerial Functions:** An entrepreneur performs the managerial functions though the managerial functions are different from entrepreneurial functions. He formulates production plans, arranges finance, purchases raw material, provides production facilities, organises sales and assumes the task of personnel management. In a large establishment these management functions are delegated to the paid managerial personnel.
- d. **Innovation Function:** An important function of an entrepreneur is “Innovation”. He conceives the idea for the improvement in the quality of production line. He considers the economic inavailability and technological feasibility in bringing about quality. The introduction of different kinds of electronic gadgets is an example of an innovation. Innovation is an ongoing function rather than once for all or possibly intermittent activity. Entrepreneurial innovation deals with the introduction of new concept, a new way of doing things or a new approach. Innovation can also be in terms of new technology, new techniques of production, new sources and types of raw materials, novel machinery, new labour saving devices, new packaging techniques and packaging materials, new way of advertising, product development, new application of existing product and even developing a new market.

Entrepreneurship development depends upon the prevailing economic system. The existing socio-political set up and the prevailing economic policies of the Government determine the economic system. The entrepreneurship development is mainly due to the

existence of such economic system. It is the entrepreneurship development that acts as a fillip to new, structure of the economy and economic reforms too. The economic system differs from country to country and hence the process of entrepreneurship development differs. The mixed economic system has been found in existence in all developing countries including India. Under this system both the Government and individual entrepreneurs play an equal role in the entrepreneurship development. The government undertakes those activities which are vital for further economic advancement. The need for a broad-based entrepreneurial class in India arises from the need to speed up. The process of activating the factors of production, leading to a higher rate of economic growth, dispersal of economic activities, development of backward and tribal areas, creation of employment opportunities, Improvement in the standard of living of the weaker sections of the society etc.

#### ENTREPRENEURS AND ECONOMIC DEVELOPMENT

Economic development means a process of upward change, whereby the real per capita income of a country increases over a period of time. Entrepreneur plays a vital role in economic development. Entrepreneur serves as the catalyst in the process of industrialization and economic growth. Technical progress alone cannot lead to economic development unless technological breakthroughs are put to economic use by entrepreneurs. It is the entrepreneur who organizes and puts to use capital, labour and technology. Accordingly, “development does not occur spontaneously as a natural consequence when economic conditions in some sense are right. A catalyst is needed, and this requires entrepreneurial activity to a considerable extent, the diversity of activities that characterizes rich countries can be attributed to the supply of entrepreneurs.” The entrepreneur is the key to create new enterprises that energize the economy and rejuvenate the established enterprises that make up the economic structure.

Entrepreneurs initiate and sustain the process of economic development in the following ways:

- Entrepreneurs mobilize the idle savings of the public through the issues of industrial securities. Investment of public savings in industry results in

productive utilization of national resources. Rate of capital formation increases which is essential for rapid economic growth. Thus, an entrepreneur is the creator of wealth.

- Entrepreneurs locate and exploit opportunities. They convert the latent and idle resources like land, labour and capital into national income and wealth in the form of goods and services. They help to increase net national product and per capita income in the country, which are important yardsticks for measuring economic growth.
- Entrepreneurs generate employment both directly and indirectly. Directly, self-employment as an entrepreneur offers the best way for independent and honorable life. Indirectly, by setting up large- and small-scale business units they offer jobs to millions. Thus, entrepreneurship helps to reduce the unemployment problem in the country.
- Entrepreneurs in the public and private sectors help to remove regional disparities in economic development. They set up industries in backward areas to avail various concessions and subsidies offered by the central and state governments. Public sector steel plants and private sector industries by Modis, Tatas, Birlas and others have put the hitherto unknown places on the international map.
- Entrepreneurs set up industries which remove scarcity of essential commodities and introduce new products. Production of goods on mass scale and manufacture of handicrafts, etc., in the small-scale sector help to improve the standards of life of a common man. These offer goods at lower costs and increase variety in consumption.
- Entrepreneurship is essential for national self-reliance. Industrialists help to manufacture indigenous substitutes of hitherto imported products thereby reducing dependence on foreign countries. Businessmen also export goods and services on a large scale and thereby earn the scarce foreign exchange for the country. Such import substitution and export promotion help to ensure the economic independence of the country without which political independence has little meaning.
- An entrepreneur initiates change which has a chain reaction. Setting up of an enterprise has several backward and forward linkages. For

example- the establishment of a steel plant generates several ancillary units and expands the demand for iron ore, coal, etc. These are backward linkages. By increasing the supply of steel, the plant facilitates the growth of machine building, tube making, utensil manufacturing and such other units.

Entrepreneurs create an atmosphere of enthusiasm and convey a sense of purpose. They give an organization its momentum. Entrepreneurial behavior is critical to the long-term vitality of every economy. The practice of entrepreneurship is as important to established firms as it is to new ones.

- Entrepreneurs locate and exploit opportunities. They convert the latent and idle resources like land, labour and capital into national income and wealth in the form of goods and services. They help increase Net National Product and Per Capita Income in the country.
- Entrepreneurs generate employment both directly and indirectly. By starting their business, they present an opportunity to others for work by offering jobs.
- Entrepreneurs help to remove the regional disparities in the economic development of areas. They set up industries in backward areas to avail various substitutes and bring up the development of that region.
- Entrepreneur set up industry which introduce new products on a mass scale. They are at lower costs and this helps to improve the standard of life of a common man.
- Entrepreneurship is essential for national self-reliance. Industrialists help to manufacture substitutes of imported products thereby reducing dependence on foreign countries. These businessmen also export products thereby earning foreign exchange for the country.

## CONCLUSION

The economic history of the presently developed countries like America, Germany, and Japan leads to support the fact that the economy is an effect for which entrepreneurship is the cause. The crucial role played by the entrepreneurs in the development of the western countries has made the people of under-developed

countries too much conscious of the significance of entrepreneurship for economic development. Now people have begun to realize that for achieving the goal of economic development, it is necessary to increase entrepreneurship both qualitatively and quantitatively in the country. It is only active and enthusiastic entrepreneurs who fully explore the potentialities of the country's available resources land, tech., capital, material etc.

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