

Chapter II: Entrepreneurship and Economic Structure

There are numerous definitions and frameworks to explain Entrepreneurship. While no universal definition for “entrepreneurship” exists, several institutions and scholars have promulgated their understanding of this term. The Organisation for Economic Cooperation and Development (OECD) defines entrepreneurship as human action in pursuit of new products, processes, or markets , while the World Bank describes it as commercial activities in the formal sector. NKC has defined Entrepreneurship as: “Entrepreneurship is the professional application of knowledge, skills and competencies and/or of monetizing a new idea, by an individual or a set of people by launching an enterprise de novo or diversifying from an existing one (distinct from seeking self-employment as in a profession or trade), thus to pursue growth while generating wealth, employment and social good”.

The Global Entrepreneurship Monitor (GEM) defines it as creation of a new business venture, both formal and informal; and the Global Entrepreneurship Index, define it as a dynamic interaction of entrepreneurial attitudes, activity, and aspiration that vary across stages of economic development (emphasis added in each definition). Gallup² defines “entrepreneurship” as activity initiated to create value by providing products and services to a market, fulfilling an unsatisfied demand. The activity can include initiating and developing a new product/service (innovative) or replicating products/services that already exist, thus creating competition (replicative).

² www.gallup.com

Recognizing the differences in focus and scope of each definition above, it is summarised that entrepreneurial framework broadly consists of individuals and the environment and its interplay³.

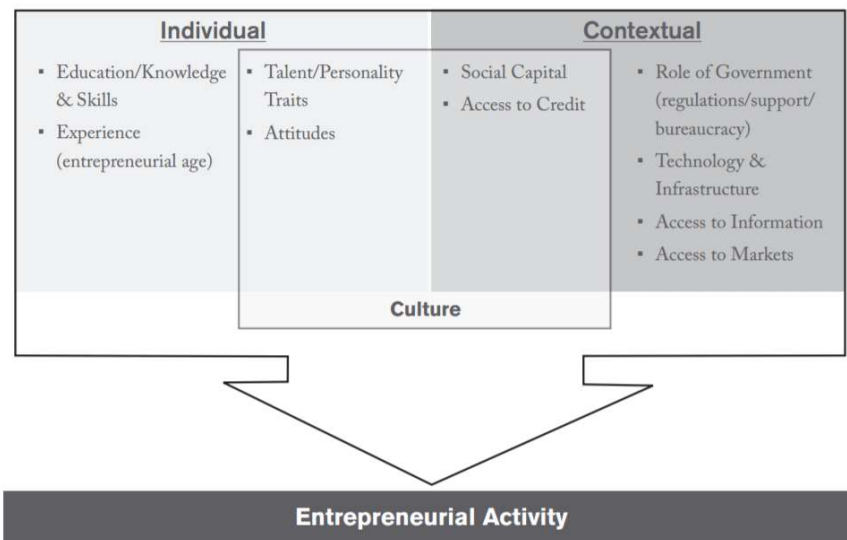


Figure 1 : Framework of measuring Entrepreneurial Activity (from www.gallup.com)

Theoretically, entrepreneurial activity is conceptualised as an interplay between individual variables (talent, attitude, experience, skills, and knowledge) and contextual variables (social capital, access to credit, role of government, technology and infrastructure, access to information, and access to markets) (Badal 2010).

³ Figure taken from <http://nifa.org/downloads/entrepreneurshipandjobcreation10711.pdf>

This framework highlights the role of contextual variables in entrepreneurial activity. Economic structure is one of the dominant variables of contextual aspect which influence entrepreneurial potential and activity. Also, this framework signifies the role of human motivations, perceptions, and behaviours in entrepreneurial decision making.

Above framework recognizes that individual psychological qualities and attitudes do not exist in isolation. But individual personality characteristics, behaviours, and attitudes are embedded in and influenced by the cultural context in which people perceive opportunities. For instance, researchers found that the Japanese culture values loyalty and long tenure to a single organization, which makes it hard for individuals to leave a job and pursue entrepreneurial activity (Badal, 2010). Similarly, research in India illustrates that cultural values have constrained entrepreneurship by business is not seemed favourable profession by many communities and castes. By comparison, in the U.S., a culture of enterprise and business, seeking constant change and innovation, valuing hard work, and extolling individualism has encouraged entrepreneurial behaviour across communities or race. Thus culture is a potential moderator in the relationship between psychological qualities and entrepreneurial activity (Bhide, 2000),(Badal, 2010).

The framework (Figure 2) also distinguishes that entrepreneurs are agents acting within social and economic systems and entrepreneurs and these social and economic systems collaborate to create new ventures (Schumpeter, 1934). This framework brings together six contextual factors (Social Capital, Access to credit, Role of Government, Technology and infrastructure, and Access to Market) that

show in local manifestations of entrepreneurial activity by studying the interaction between cultural values, social and political institutions, and industry characteristics in the local environment.

Amar Bhide (2000) also has tried to build a framework around the entrepreneurial space limited by investment, uncertainty and profit. He argued that Entrepreneurs are the primary engine of commercial change in the economy. Entrepreneurial opportunities are ideas that have the potential to create value through new, repackaged, or repositioned products, markets, processes, or services. These ideas are executed by willing individuals who are bold to take the risk and enter the market with their offerings. This space has many forces intertwined and embedded in different ways but investment, uncertainty and profit are primary factors which decide the nature of economic conditions available for entrepreneurship. The economic structure in which these forces interact is very crucial for new businesses. The macroeconomic aggregates and growth of technology strongly influence the entrepreneurship by creating new opportunities.

These macroeconomic aggregates are components of economic structure which is defined as the composition of various components of the macro aggregates, relative change in their size over time, and its relationship with the circular flow of income (Jackson 1989). It is also defined as a term that describes the changing balance of output, trade, incomes and employment drawn from different economic sectors – ranging from primary (farming, fishing, mining, etc.) to secondary (manufacturing and construction industries) to tertiary and quaternary sectors (tourism, banking, software industries). Changes in economic structure are a natural feature of economic life but they bring challenges in terms of

reallocating factors of production.⁴So, the contextual variables in above framework has a subset of variables which constitute economic structure.

Economic structure is a natural feature of economic life which is dynamic. It brings challenges in terms of reallocating factors of production with flow of income. For example, a shift in production and jobs in one sector can lead to problems of structural unemployment. Changes which alter the economic structure create opportunities for entrepreneurs to bring new products and services.

Social, economic, and legal changes may occur within pervasive trends. Social changes are reflected in important changes in preferences about clothing styles, food (e.g., gluten-free diets), travel and leisure, housing, and so forth. An anticipation of social change is the genesis of many entrepreneurial opportunities as innovators position themselves to satisfy the demand for the related new products and services. Economic shifts—the rise of two-career families, higher disposable incomes, changing savings patterns—also suggest entrepreneurial opportunities. Changes in our legal environment can introduce important economic opportunities by eliminating existing barriers to entry. For example, deregulation in the banking, transportation, and telecommunications industries has allowed entrepreneurs to provide cost-efficient, demand-driven alternatives. So are bubbles and crisis in an economy, it creates shift in resource allocation and income flow. Such shifts are source of entrepreneurial opportunities which is

⁴<https://www.tutor2u.net/economics/blog/as-macro-key-term-economic-structure>

often taken by willing and daring individuals with appropriate product or services require in the economy.

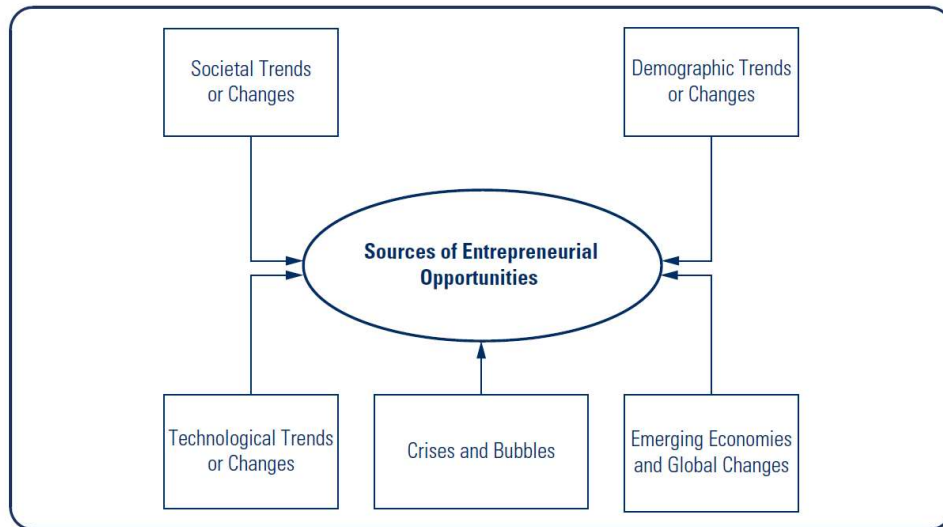


Figure 2: Sources of Entrepreneurial Opportunities⁵.

In our global economy, growth opportunities will shift over time. For the watchful entrepreneur, emerging economy demand provides opportunities for establishing and expanding a venture's lines of business. Awareness of the shifts and a readiness to exploit new avenues of demand for a venture's products and services is an important aspect of today's global economy.

Bubbles and Crises disrupt the economy but importantly for aspiring entrepreneurs, these dark and cloudy times almost always come with a silver lining. For this most recent financial crisis, it appears that one nascent sector that benefitted dramatically during the time of crisis was alternative and renewable energy. Subsidies abounded with project credits, production and investment tax credits, and loan guarantees. Additionally, while many entrepreneurs suffer dearly

⁵Leach Chris J. and Melicher Ronald W. (2015). Entrepreneurial Finance, p-10.

as their ventures fail, others benefit from consolidation and the resulting lower level of competition due to the shakeout. Many aspiring entrepreneurs and investor connections are made during the fallout from major economic crises.

Technological change may be the most important source of entrepreneurial opportunities. All around us we saw our evolution towards informational society. Transatlantic cable telephone service moved to global satellite communications, transistors, which later crowded into a computer “chip”, replaced vacuum tubes in electronics. These technological changes provided plethora of opportunities which famous giants of today like Microsoft, Apple and Google exploited in the beginning of such technological changes.

Finally, Government initiatives, which may be for the stabilisation of the economy or for boosting a particular sector of economy, do benefit many new entrants. So, Government initiatives do provide opportunity for entrepreneurs by altering resources and income flow or economic structure. Therefore, these initiatives are usually aimed to provide conducive environment for entrepreneurs so that they can tap the available economic and technological opportunities.

NKC report (2008) found that a willing-individual who undertakes entrepreneurial activity in India is motivated by ‘Independence’, ‘Market Opportunity’, ‘Family Background’, ‘New Idea’, ‘Challenge’, and ‘Dream Desire’ which vary according to parameters such as region, gender, age, family background, and work experience. Noticeably, ‘challenge’ is the principal ‘Motivation Driver’. Based on their primary data, NKC found that 99.4% of the entrepreneurs interviewed did not want to be in a routine job, 74% of the

entrepreneurs interviewed received family support, underscoring its crucial significance.

Furthermore, entrepreneurship report is based on one-on-one interviews with one hundred and fifty-five entrepreneurs from diverse backgrounds, in selected cities across India, as well as collecting information from consultations with other relevant stakeholders in the entrepreneurial ecosystem (such as educational institutions, incubation centres, the financial community, chambers of commerce, entrepreneurial associations etc.) across the country.

Based on these interviews NKC summarises important findings that a successful Entrepreneurship ecosystem is the function of a number of factors working together. Critical among them are, individual motivations, socio-cultural factors, access to Early-Stage Finance, education and business environment. 63% of the entrepreneurs interviewed were self-financed, while other sources included banks, venture capital (VC), angel investors and state finance corporations. Among those financed by banks, 61% of people who approached banks did receive bank finance. But entrepreneurs agreed that it is very difficult to get bank loans at the start-up stage while becoming comparatively easier at the growth stage.

This study found that 95% of entrepreneurs believe education is a critical success factor which evokes entrepreneurial inclinations. Though 98% of the entrepreneurs are graduates, yet only 16% chose a specific sector of their educational background. Skill shortage is major handicap faced by nearly one in two entrepreneurs and more than a third of the entrepreneurs faced problems in accessing as well as retaining employees.

In case of difficulty in doing business, 50% of the entrepreneurs experienced difficulties while seeking statutory clearances and licences. And two-thirds faced hassles while filing taxes and 60% claimed to have encountered corruption. Accessibility to information and registration process, finance and other schemes was another hurdle. Nearly 56% of budding entrepreneurs found lack of quality infrastructure – especially transport, power, and telecommunications – a critical bottleneck.

In sum, entrepreneurship is broadly measured by number of firm formation which is impacted by individual variables (talent, attitude, experience, skills, and knowledge) and contextual variables (social capital, access to credit, role of government, technology and infrastructure, access to information, and access to markets). Many variables influencing firm formation are directly influenced by economic structure. This has also been substantiated by the findings of NKC report. For example, availability of early finance and technological changes are related to lending rate and expenditure on R&D activities respectively. Doesn't unemployment affect availability of human resources which is important for new businesses to firm and progress? To study the impact of these factors on formation of firms or intensity of entrepreneurial activity is the basic rationale of my research.