

## Chapter V: Summary, Discussion, and Conclusion

This chapter begins with a summary of the purpose and structure of the study and is followed by the major findings related to the influences on new firm formation which measures entrepreneurship. Conclusions from the findings of this study are discussed in relation to the definition, function, and characteristics of a theoretical framework. Theoretical frameworks on this subject portray an entwined relationship between individual entrepreneurship factors (individual talent, attitude, skills, and knowledge) and contextual factors (social capital, access to credit, role of government, technology and infrastructure, access to information, and access to markets work) which work in tandem to drive entrepreneurial endeavour. The study focuses on few of the contextual variables and its relationship with firm creation. Implications of this study and recommendations for further research are discussed in the end of this chapter.

### Summary of the study

The study explored the impact of economic structure and, in particular, unemployment on intensity of entrepreneurship. In other words, study is an endeavour of exploring the factors of economic structure which are associated with entrepreneurial activity in Indian economy. Creation of firm is a measure of entrepreneurial activity for the study.

Theoretically, Bhide (2000)'s and Gallup's (Badal, 2010) frameworks (Figure 2) on entrepreneurial activity represent interdependence of individual and contextual variables. 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) are interrelated and embedded.

Accordingly, for this study, secondary data of creation and liquidation of firms per year for twenty-one years from 1994 to 2014 along with annual data of macroeconomic aggregates of inflation, unemployment, Lending rate, R&D spending and GDP is collected from various sources. The contextual variables like unemployment, spending of R&D, cost of capital (lending rate), Inflation and GDP of entrepreneurial framework which signify economic structure is studied. Closure of firms is another indicator taken for analysis to understand its linkages with new firm formation. Time-series data for twenty-one year on above macroeconomic factors are used in statistical analysis. The analysis, after due checks of possible errors in data like autocorrelation, is used to discover the likely association of the macroeconomic indicators with the number of firms created.

Results of statistical study revealed some interesting relationships. Most significantly, the unemployment in India has strong negative relation with firm formation. This relationship show that availability of ample human resource due to high unemployment does not necessarily result in increase in firm formation. On the contrary, low unemployment rate seems to favour firm creation. The likely reasons may be linked to the issues of labour market and its flexibility. Findings also discovered that R&D spending is positively linked to economic activity whereas lending rate is negatively related. Logically, higher lending rate would make access to capital difficult for entrepreneurs and would adversely affect creation of firms. Conversely, increase in R&D spending would spur technological growth creating new business opportunities in the market which is

conducive for new firm formation. These linkages revealed in this study can be harnessed by policymakers for designing government initiatives for furthering entrepreneurial growth in the country.

This study included two research questions. Questions one and two were answered quantitatively from the data obtained from secondary sources like MCA and WB open database. Question two was answered using the results from correlation analysis conducted (Details of Analysis is at Appendix A). To answer question one, apart from correlation statistics, qualitative data based on NKC and other sources were also used. The quantitative results addressed only question one completely. To answer the question two, it required supplementation by qualitative data which obtained from personal narratives of founders in NKC report and analysis of personal interviews by NKC and Bhide (2000).

Previous researchers (Storey, 2005; Audretsch and Acs 1994; Choi and Phan, 2006) studied extensively as how unemployment, macroeconomic fluctuations and technological advancement affect the formation of new firms. The study explored the impact of factors especially unemployment on creation of new firms. The following are implications of the findings for each of the two research questions.

To answer the first research question as to how has economic structure of last two decades influenced the creation of new firms in India. A qualitative approach was employed apart from quantitative correlation between firm formation and indicators of economic structure like lending rate, Inflation, R&D expenditure, GDP and failure rate.

A significant positive relationship between R&D expenditure and the firm formation is found to exist ( $r=0.68, p < 0.01$ ). It substantiates the belief that increasing R&D expenditure would further increase entrepreneurship in the country. The relationship shows significant positive association for R&D expenditure and GDP to the firm formation. This validates the theory that an expanding economy which has increasing R&D expenditure, provides necessary financial, technological and market drivers. Schumpeterian theory is validated with the positive relation of expenditure in R&D with rate of firm formation as entrepreneurs do use technology to provide new goods and services in a growing economy.

Availability of capital in an economy is strongly influenced by the lending rate. This is similarly strongly correlated but negatively related to firm formation ( $r=-0.54, p<0.05$ ). This is because availability of early finance is very critical for new start-ups(NKC, 2008).The perception of easy access to credit is a strong predictor of entrepreneurial intent and business ownership worldwide (Badal, 2010)

NKC report has highlighted the need for viability of financing options for entrepreneurial space for growth. Many founders have discussed their initial difficulties regarding financing their ventures. 63% of the entrepreneurs interviewed were self-financed. Among those financed by banks, a majority who approached banks (61%) did receive bank finance (NKC, 2008). High capital cost in an economy is a deterrent for firm creation and growth. Angel Financing, Venture Capitalist and others non-banking financing options which provide early finance to entrepreneurs are also effected by lending rates in the economy.

Several contextual variables such as social capital, access to credit, role of government, technology and infrastructure, access to information, and access to markets along with individual talent, attitude, skills, and knowledge work together to drive entrepreneurial activity. The relative importance of these factors varies according to the stages in the life cycle of an organization and across countries and regions of the world. Gallup's framework ([www.Gallup.com](http://www.Gallup.com)) also postulates that changes in any one component may lead to changes in others, creating feedback loops. For instance, increase in economic growth (impact) may affect access to credit (determinant), which may lead to more entrepreneurial activity (performance indicator), which in turn leads to higher growth (Badal 2010).

Finally, the findings of this study indicate that the labour market characteristics is important driver for entrepreneurial policy. The significant negative association between unemployment and firm formation might be due to inflexibility in the labour market. Therefore, policymakers should concentrate on labour market along with technological and other economic opportunities through macroeconomic policies. Majority of founders interviewed by NKC admitted shortage of right kind of personnel is a major challenge. This seriously affects quality of labour available in market which is important for firm formation.

The second research question relates to exploring the relationship between unemployment level in the economy and creation of new ventures in India. A significant relationship was found to exist between the unemployment in India and new firm formation. The negative relationship indicates that high unemployment in an economy is not conducive for entrepreneurial growth. This relationship can be explained by the fact that high level of unemployment signifies poor economic strength and uncertainty which “push” off people from starting

new firms. In other words, there are factors which increase the opportunity cost of starting business which pushes individuals to choose employment over self-employment. The other force which authors like Choi and Phan (2005) has discussed that in poor economy, the wages come down which “pull” people to start their own business to increase their personal wealth. This, however, greatly depend upon the labour mobility in the country. This “pull” force appears to be weak because the labour mobility in India is poor. Therefore, this explains as why, in this study, unemployment is negatively associated with firm formation in India. It is seen from the analysis that unemployment has significant negative relation with the firm formation. In other words, when unemployment is high in India, the rate of formation of new firms or entrepreneurial activity is low.

Previous study by Storey (1991) concluded that “The broad consensus is that time-series analysis point to unemployment being, *ceteris paribus*, positively associated with indices of new firm formation whereas cross-sectional, or pooled cross sectional studies appear to indicate the reverse.” Storey (1991) has attributed this discrepancy either to measurement error to omitted variable bias. Audtretsch and Jin (1993) further explained the paradox in form of economy wide shocks which define the push or pull factor of unemployment. The economy level shock works in either direction and hence there are paradoxical inferences.

In Indian context, it might be possible that labour mobility is not as high as US or UK where these studies were undertaken and hence firm formation through “pulling effect” is much less than “pushing effect”. Choi and Phan, 2005 have established that in a flexible labour market, unemployment is positively associated with the firm formation. They argue that “even though statistically

insignificant, the positive association between unemployment and new firm formation in the U.S. seems to be in part due to the flexibility in the U.S. market”.

The result of my study does indicate that there is inherent inflexibility in the Indian Labour Market which is reflected in negative association of unemployment to entrepreneurial activity. The NKC report on Entrepreneurship (2008) mentions that entrepreneurs surveyed indicate labour laws as one of the major infrastructural difficulties in starting business.

### Implications of the Study

The findings of this study identified many links of economic factors on entrepreneurship. They have comprehensive implications for persons interested in the Indian business development. This study identified several links between unemployment, expenditure on R&D, etc. and firm formation. Persons interested in entrepreneurial policy and research in India will find the evidence of links between expenditures on technology developments and firm formation very useful. It is known that India will need to generate 280 million jobs between now and 2050<sup>6</sup>. For business administrators, this study offers insight into what resource allocation strategies are more likely to positively influence business growth in India. It will also give the administrator the idea of strategies which may negatively influence entrepreneurship in India, for instance, lending rate in the economy.

For both research questions , using quantitative and qualitative methodologies, unemployment and R&D expenditures were identified as significant predictors of

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<sup>6</sup><https://www.youthkiawaaz.com/2016/05/lack-of-jobs-and-unemployment-in-india>

entrepreneurship environment. This study will also be useful to persons interested in business finance research and policy development. Many researchers have indicated that the increase in unemployment drives people to opt for self-employment resulting in increase in new firms. These studies, in most cases, looked at data from U.S. where labour laws are very flexible as compared to India. Also, the business infrastructure in India is poor and in the period of high unemployment, firm formation do show decrease. The present study looked at the unemployment aggregates as well as expenditure on research and Development. Increase in R&D expenditure in real terms is positively associated with firm formation which point to increased business activity in the economy.

### Recommendations

This study can be further logically be extended in understanding the labour mobility and technological drivers by further studying R&D activities in detail. As mentioned earlier in limitation, the data is in longitudinal series which can be further extended for cross-sectional data of dependent and independent variables. Cross-section study can further be made in industry specific areas of agriculture, manufacturing, services, etc. The effect of labour migration geographically and its effect on regional variations in firm formation can be studied. There is a possibility to extend this research to understand the local job creation through small firm formations at local levels. Policy makers of existing MNREGA which has a prospect to build the foundations of a social security system in rural India, revive village economies, promote social equity, and empower rural labour<sup>7</sup> can

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<sup>7</sup>Dreze, J. (2008). 'Employment guarantee: beyond propaganda'. The Hindu, 11 January

modify the program to stimulate and enable entrepreneurship at the grass root level. This category of future studies, on this researched subject, would aid the policy makers to push entrepreneurship activities in the country. Another likely extension of this study would be to investigate the differences in influences of unemployment in India and USA on firm creation. This would discover the factors which affect the decision of people between the choice to switch between employment and self-employment.