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Influence of entrepreneurship to economic development: Indian perspectives

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Abstract

The study was to investigate the influence of entrepreneurship to economic growth: an empirical study on region Bihar in Muzaffarpur District. The purpose of study, the researcher employed descriptive research design. Analysis of data was collected from 80 respondent's industrial area of Muzaffarpur (Bihar). The study was aiming to examine the contributions of entrepreneurship to economic development. The study revealed that entrepreneurship increases the employment level of the country, the productivity, and also makes considerable change the living standards of those involved in the entrepreneurial activities. The researcher suggests that to establish centre for coordination of entrepreneurs and come up with policies and programs aimed at improving the entrepreneurial activities. The data produces from economic survey-government Bihar, Finance Department.

Keywords: entrepreneurship, economic development-through economic survey

Introduction

Entrepreneurs create new businesses, and new businesses in turn create jobs, intensify competition, and may even increase productivity through technological change. Highly measured levels of entrepreneurship will thus translate directly into high levels of economic growth. However, the reality is more complicated (Acs, Zoltan, J 2007)^[1]. Economics (Romer, 1990; Krugman, 1991)^[18, 13]. However, a different scholarly tradition linking growth to industrial organization dates back at least to Schumpeter (1934)^[20]. According to this tradition, performance, measured in terms of economic growth, is shaped by the degree to which the industry structure utilizes scarce resources most efficiently. This (most efficient) industrial structure does not alter in case its underlying determinants are stable. However, as Chandler (1990)^[7], Scherer and Ross (1990)^[19] and Dosi (1988)^[8] emphasize, a change in the underlying determinants would be expected to result in a change in the industry structure most conducive to growth. Certainly, Chandler (1990)^[7] and Scherer and Ross (1990)^[19] identified a shift in industry structure towards increased centralization and concentration throughout the first two-thirds of the previous century as a result of changes in the underlying technology along with other factors. More recently, a series of studies has identified a change in the determinants underlying the industry structure that has reversed this trend. The most salient point of this change is that technological change, globalization, deregulation, shifts in the labor supply, variety in demand, and the resulting higher levels of uncertainty have rendered a shift in the industry structure away from greater concentration and centralization towards less concentration and decentralization. A series of empirical studies have uncovered two systematic findings regarding the response of industry structure to changes in the underlying determinants. The first is that the industry structure is generally shifting towards an increased role for small firms. The second is that the extent and timing of this shift is anything but identical across countries. Apparently, institutions and policies in certain countries have facilitated a greater and more rapid response to technological change and globalization, along with the other underlying factors, by shifting to a less centralized and more dispersed industry structure than has been the case in other countries.

The last two decades have witnessed a wealth of studies analyzing the determinants of entrepreneurship. While some of these studies are theoretical (e.g. Holmes and Schmitz, 1990)^[12], others are empirical (e.g. Evans and Leighton, 1990).

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The consequences of entrepreneurship, in terms of economic performance, have also generated a extensive literature. However, this literature has generally been restricted to two units of observations – that of the establishment or firm, and that of the region. Noticeably absent are studies linking the impact of entrepreneurship on performance for the unit of observation of the country. A large literature has emerged analyzing the impact of entrepreneurship on economic performance at the level of the firm or establishment. These studies typically measure economic performance in terms of firm growth and survival (Audretsch, 1995; Caves, 1998; Sutton, 1997) ^[3, 6, 21]. The compelling stylized facts that have emerged from this literature are that entrepreneurial activity, measured in terms of firm size and age, is positively related to growth. 1 New firms and (very) small firms grow systematically larger than large and established incumbents. These findings hold across modern Western economies and across time periods. The link between entrepreneurship and performance has also been extended beyond the unit of observation of the firm to include geographic regions. A small literature exists linking measures of entrepreneurial activity for regions to the economic performance of those regions (e.g. Audretsch and Fritsch, 2002; Acs and Armington, 2002) ^[4, 2]. Carlsson (1992) ^[5] provide evidence concerning manufacturing industries in countries in varying stages of economic development. Carlsson advances two explanations for the shift toward smallness. The first deals with fundamental changes in the world economy from the 1970s onward. These changes relate to the intensification of global competition, the increase in the degree of uncertainty and the growth of market fragmentation. The second deals with changes in the character of technological progress. He shows that flexible automation has various effects, resulting in a shift from large to smaller firms. Also, Piore and Sable (1984) ^[17] argue that the instability of markets in the 1970s resulted in the demise of mass production and promoted

flexible specialization. This fundamental change in the path of technological development led to the occurrence of vast diseconomies of scale.

Lazear (2004) ^[16] stated that “the entrepreneur is the most crucial player in the modern economy”. Hendersen (2002) ^[10] stated that through new firm’s creation, entrepreneurs create economic growth. Holcombe (1998) ^[11] and Kirzner (1973) ^[15] believe that when entrepreneurship is interacted with other factors of production: land, labor and capital produce growth in the economy. When entrepreneurship is incorporated in the neo-classical models, it becomes obvious that is the crucial factor impacting growth; rather than technology or investment in human capital per se. (Holcombe, pg. 60). Even though during the history, the impact of entrepreneurship have been known (e.g. Knight (1921) ^[14], Schumpeter (1934) ^[20], Kirzner (1973)) ^[15] assessing through models this impact has been relatively new.

Overview of global economic scenario

India continues to remain the fastest growing major economy in the world in 2018- 19, despite a slight moderation in its GDP growth from 7.2 per cent in 2017-18 to 6.8 per cent in 2018-19. On the other hand, the world output growth declined from 3.8 per cent in 2017 to 3.6 per cent in 2018. The slowdown in the world economy and Emerging Market and Developing Economies (EMDEs) in 2018 followed the escalation of US China trade tensions, tighter credit policies in normalization of monetary policy in the larger advanced economies. In 2019, when the world economy and EMDEs are projected to slow down by 0.3 and 0.1 percentage points respectively, growth of Indian economy is forecast to increase (Figure 1). Crucially, India forms part of 30 per cent of the global economy, whose growth is not projected to decline in 2019 (World Economic Outlook (WEO), April 2019 of IMF).

Table 1: Key Indicators

Data Categories	Unit	2015-2016	2016-2017	2017-2018
GDP at current market prices	Crore	13771874	15362386	17095005
GDP at constant market prices	Crore	11369493	12298327	13179857
Growth Rate	(per cent)	8.0	8.2	7.2
GVA at constant basic prices	Crore	10491870	11318972	12104165
Growth Rate	(per cent)	8.0	7.9	6.9
Gross Savings	% of GDP	31.1	30.3	30.5
Gross Capital Formation	% of GDP	32.1	30.9	32.3
Per Capita Net National Income (at current prices)		94797	104659	114958
Production				
Food grains	Million tonnes	251.5	275.1	285.0
Index of Industrial Production (growth)	(per cent)	3.3	4.6	4.4
Electricity Generation (growth)	(per cent)	5.6	4.7	4.0
Prices				
WPI inflation (average)	(percent)	-3.7	1.7	3.0
CPI(Combined) inflation (average)	(Percent)	4.9	4.5	3.6
External Sector inflation (average)				
Merchandise export growth (in US\$ term)	(Percent)	-15.5	5.2	10.0
Merchandise import growth (in US\$ term)	(per cent)	- 15.0	0.9	21.1
Current Account Balance	% of GDP	-1.1	-0.6	-1.9
Foreign Exchange Reserves (end of year)	US\$ billion	360.2	370.0	424.5
Average Exchange Rate	/US\$	65.5	67.1	64.5
Money and Credit				
Broad Money (M3) growth	(per cent)	10.1	10.1	9.2
Scheduled Commercial Bank Credit (Growth Rate)	(per cent)	10.9	8.2	10.0
Fiscal Indicators (Centre)				

Gross fiscal Deficit	% of GDP	3.9	3.5	3.5
Revenue Deficit	% of GDP	2.5	2.1	2.6
Primary Deficit	% of GDP	0.7	0.4	0.4

It is historically observed that, with economic growth, the structure of any economy would show major changes. This is primarily because, with increase in income, the pattern of demand changes from primary sectors products to products of secondary sector and services sector. This expected trend can be judged from the figures in Table 1.4, which presents the sectoral composition of GSDP at constant (2011-12) prices for the period from 2011-12 to 2015-16. It may be mentioned here that GSVA (Gross State Value Added) is GSDP minus taxes on product and plus subsidies on products. In 2011-12, the share of the primary sector in total GSDP happened to be 25.2 percent, the secondary sectors' contribution was 18.3 percent and the remaining 54.3 percent was accounted for by the tertiary sector. In 2015-16 the changed shares are — primary (18.3 percent), secondary

(18.1 percent) and tertiary (59.9 percent). This reveals that, over the four year period, the share of primary sector has fallen by 7 percentage points. During the same period, the contribution of tertiary sector has jumped by 6 percentage points and touched a high of around 60 percent. Within the three broad groups (primary, secondary and tertiary), there are specific sectors and their shares have also changed substantially in some cases. Within the primary sector, there has been a fall in the contribution of the 'crops' sub-sector, whereas the 'livestock' sub-sector showed marginal improvement. In the tertiary sector, trade, repair, hotels and restaurants showed substantial increase (from 17.8 to 22.7 percent), but real estates, ownership of dwelling and professional services showed a decline (from 11.3 to 9.8 percent) over the period.

Table 2: Sectoral Composition of GSDP at Constant (2011-12) Prices

Sl. No.	Item	2011-12	2012-13	2013-14	2014-15 (P)	2015-16 (Q)
1.	Agriculture, forestry and fishing	25.1	26.5	22.1	19.6	18.1
1.1	Crops	17.2	18.5	13.8	11.6	10.3
1.2	Livestock	4.9	4.9	5.2	5.0	5.0
1.3	Forestry and logging	1.7	1.7	1.6	1.4	1.4
1.4	Fishing and aquaculture	1.3	1.5	1.5	1.5	1.5
2.	Mining and quarrying	0.1	0.1	0.5	0.2	0.2
	Primary	25.2	26.6	22.6	19.8	18.3
3.	Manufacturing	5.9	3.8	7.0	6.2	7.2
4.	Electricity, gas, water supply & other utility services	1.5	1.6	1.5	1.8	1.9
5.	Construction	10.9	10.0	10.1	9.0	8.9
	Secondary	18.3	15.3	18.6	17.1	18.1
6.	Trade, repair, hotels and restaurants	17.8	18.2	16.9	21.0	22.7
6.1	Trade & repair services	16.6	17.1	15.9	20.0	21.6
6.2	Hotels & restaurants	1.1	1.1	1.1	1.0	1.0
7.	Transport, storage, communication & services related to broadcasting	7.1	7.9	8.7	8.5	8.6
7.1	Railways	1.1	1.3	1.5	1.3	1.2
7.2	Road transport	3.4	3.9	4.2	4.2	4.3
7.3	Water transport	0.0	0.0	0.0	0.0	0.0
7.4	Air transport	0.0	0.0	0.0	0.0	0.0
7.5	Services incidental to transport	0.4	0.4	0.4	0.4	0.5
7.6	Storage	0.0	0.0	0.0	0.0	0.0
7.7	Communication & services related to broadcasting	2.2	2.3	2.5	2.5	2.6
8.	Financial services	3.6	3.7	3.8	3.5	3.5
9.	Real estate, ownership of dwelling & professional services	11.3	11.2	11.1	10.1	9.8
10.	Public administration	5.5	5.2	4.7	5.3	4.7
11.	Other services	9.0	9.8	10.2	11.4	10.5
	Tertiary	54.3	56.1	55.4	59.8	59.9
12.	Total GSVA at basic prices	97.8	98.0	96.7	96.7	96.3
13.	Taxes on Products	6.9	7.6	8.4	8.8	10.0
14.	Subsidies on products	4.7	5.6	5.1	5.5	6.3
15.	Gross State Domestic Product	100.0	100.0	100.0	100.0	100.0

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