

# Role of Entrepreneurship in Enhancing Economic Growth in India

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## ABSTRACT

Entrepreneurship plays an important role in economic development and continuous economic growth induces to economic development of India. It is the main aspect of capital formation and leads to structural transformation of our country. There is a major contribution of entrepreneurs in the opposite pole of stagnating development (including conflict) and in high innovation leads to economic growth. For the economic development of our country, we have to use the natural resources in the optimum manner as we have scarce resources in our economy. One of the major resources in our country is Human resource which plays a crucial part in the process of economic development in comparison to other resources of the country. Many routinely adopted policies for entrepreneurship, such as provision of credit and education, are shown to have more subtle effects, not all of which are conducive to growth-enhancing entrepreneurship. The basic purpose of this paper is to examine the relation between entrepreneurship as a driver for economic growth in India at present. For this research the secondary data is used which has been collected from various authentic websites, magazines, books and journals.

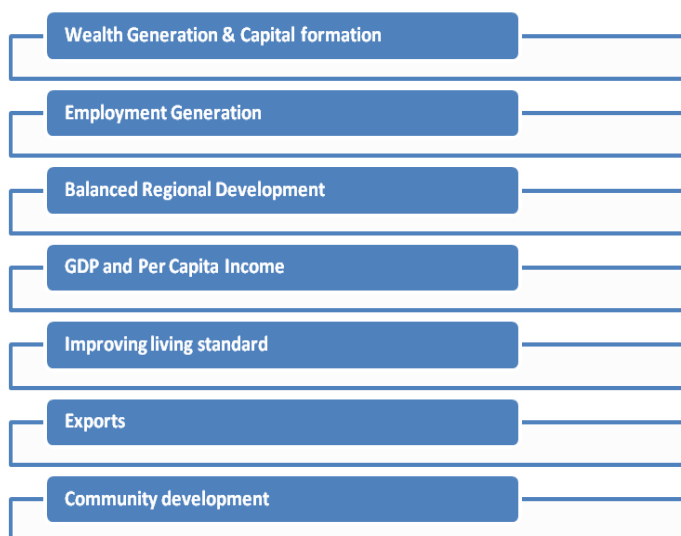
## 1. Introduction

From the time of independence, India has been a developing nation. Now it is the time to see India as a developed nation and it could only be possible through continuous economic growth of the country because through continuous growth only we can achieve economic development. Entrepreneurship is related with the manufacturing sector and plays a very vital role in economic growth as it's a major source of capital formation which ultimately enhances the GDP and holds the economic growth of the country. Entrepreneurship leads to the capital formation and the structural transformation of our country from low income, primary-sector based societies into high-income service and technology based societies. There is a great role of entrepreneurs in the opposite pole of stagnating development (including conflict) and in high innovation-driven growth. For the economic development of our country, we have to utilize the natural resources in the optimum manner as we have limited resources in our economy. One of the major resources in our country is Human workforces which plays a vital role in the process of economic development among other resources. Entrepreneurship opens the opportunities for income generation and also enhances the employment opportunities' for youth which reduces the problem of unemployment. Entrepreneurship means innovating, breaking down barriers by taking risk and showing new business idea that can tackle and reduce problem of the society. And opening a new venture leads to employment opportunities. Economic development can be achieved through the enhancement in productivity as it increases GDP & national income of country which is very important for both the developed and developing nations. However, even though we know that higher productivity leads to improved economic outcomes i.e. higher income, more choices to the consumers, better quality products, etc

which will increase the standard of living of the people of society.

By establishing any business you are not creating revenue for yourself but also increasing the national income by providing employment opportunities to others also.

### Important roles of entrepreneur



**1. Wealth generation & capital formation:** By establishing the business, entrepreneurs invest their own resources and attract funds from investors, lenders and the public which mobilizes public wealth and allows people to benefit from the growing businesses. This kind of pooled capital that results in wealth creation and distribution is one of the basic imperatives and goals of economic development.

**2. Employment Generation:** With the help of one business idea, an entrepreneur is giving employment to the multiple job seekers. This is the main reason that our Government is taking initiatives such as Startup India for supporting new startups; Make in India initiative for enhancing capital formation and resolving the problem of economy by creating more employment opportunities by providing financial assistance to the people who want to do business.

**3. GDP and Per Capita Income:** India's MSME sector, comprised of 36 million units that provide employment for more than 80 million people, now accounts for over 37% of the country's GDP. Each new addition to these 36 million units makes use of even more resources like land, labor and capital to develop products and services that add to the national income, national product and per capita income of the country. This growth in GDP and per capita income is again one of the important objectives of economic development.

**4. Balanced Regional Development:** Establishing new businesses and industrial units in backward areas can lead to development of backward area through infrastructural development of the country. The growth of industries and business in these areas leads to infrastructure development like better roads and railways links, airports, electricity & water supply, schools, hospitals, shopping malls and other public and private services.

**5. Improving Living standard:** Entrepreneurs again play a key role in increasing the standard of living in a community which is one of the major aspects of economic development. They do this not just by creating jobs, but also by developing and adopting innovations that lead to improvements in the quality of life of their employees, customers, and other stakeholders in the community. For example, automation that reduces production costs and enables faster production will make a business unit more productive, while also providing its customers with the same goods at lower prices.

**6. Exports:** Any growing business will eventually want to get started with exports to expand their business to foreign markets. This is an important element of economic development since it provides access to bigger markets, and leads to currency inflows and access to the latest cutting-edge technologies and processes being used in more developed foreign markets. Another key benefit is that this expansion that leads to more stable business revenue during economic down turns in the local economy.

**7. Community Development:** With the promotion of manufacturing sector, there is a growth of allied services as it is the important part for any business and leads to infrastructural development which affects the community as it enhances education and training, healthcare, and other public services.

## 2. Objectives of the study

1. To examine the contribution of entrepreneurship to the economic development.
2. To identify the risk perceptions of Indian youth.
3. To find the reasons why India lacks behind in

promoting entrepreneurs.

Definitions of entrepreneurship have emphasized a broad range of activities including the exploration of opportunities Kirzner(1973), Bearing of uncertainty Knight(1921), Taking risk Peter Drucker (1970), Creation of organizations, Gartner(1988). In his early work, Schumpeter (1911) recognized abstractly the "entrepreneur as innovator" that forms the main character in driving economic development.

**Schumpeter (1942)** illustrated about the innovative activities of entrepreneurs' inputs a constructive destruction process by causing constant disturbances to the balanced economic system and creating opportunities. In response of these disturbances and to bring back the equilibrium other innovations are spun-off and more entrepreneurs enter in the economic system. Thus, Schumpeter's theory shows that an increase in the number of entrepreneurs leads to an increase in economic growth through capital formation and employment generation.

**Arthur Okun (1962)** propounded Okun's law which illustrated that 1% point increase in unemployment rate causes 2% point decrease in GDP and to reduce the unemployment rate, the economy must grow at a pace above its potential.

**Evans (1989)** uses data for the US economy from 1950 to 1989 in order to assess the relationship between the GDP growth and the unemployment rate. Using a non-restricted variate he found a "substantial feedback" between the two variables that supported a long-run relationship between the GDP growth and unemployment at about 0.30 which was similar to the Okun's findings.

**Picot et al. (1998)** have found a "Schumpeter" effect in his study, where new firms augment employment levels by stimulating economic activity and creating new jobs.

**Wennekers and Thurik (1999)** mentioned that at different levels for entrepreneurial activities there are numerous effects and conditions are taking place and have great impact on economic development. There is a working assumption that a rise in the number of entrepreneurs should lead to increased economic growth at the national level under the condition of *ceteris paribus*.

**Jones & Butler (1992)** mentioned that entrepreneurship is the innovative business idea of single person but the management of any firm is a group activity which considers the available opportunity and enhance quality related to the factors of production to achieve value-addition.

**Okhomina (2008)** described about the success of entrepreneurship, positive environment could be an important factor. Supporting environment moderates the relationship between psychological traits and entrepreneurship orientation.

**Stam (2010) and Dahi (2012)** illustrated about the role of government for supporting small-scale business. Without the support of government the survival for small-scale business

very difficult as they provide financial assistance to them in form of funds.

### 3. Research methodology

Type of Research- Exploratory research

Method of Data collection- I have used secondary data for the research which is collected through reviews of past researches done by researchers, economists, various national and international agencies or organizations, journals, articles, other reports and from authentic websites.

### 4. Data collection

#### 1. Entrepreneurship as an engine of growth

As entrepreneurship is related to manufacturing sector, which leads to capital formation and enhancement in the production level of the country. Globally, entrepreneurs are widely considered to be of immense importance to the economy as their activities act as economy's engine, enacting and empowering all monetary action. Entrepreneurial revolution has driven the economic success and effective growth of nations worldwide. A society is prosperous as much as it compensates and empowers entrepreneurial movement because it is the entrepreneurial activities that are the fundamental determinant of the level of achievement, development and opportunity in any economy. The most vigorous societies are those who are having the large number of entrepreneurs in addition to the financial and legitimate structure to urge and proper business visionaries to more prominent activities.

Entrepreneurs act as catalyst agent for the expansion and promotion of economic activities in every sphere of economic life of a country. Entrepreneurs are known for introducing new business ideas and combinations, improving already existing productive resources, optimum utilization of resources, and generating employment opportunities. Thus, the well-planned, well-organized and well-coordinated actions of entrepreneurs can bring high economic growth rate in the country.

#### 2. What can entrepreneurs offer to our country?

One entrepreneur provide job to the multiple job seekers which resolves the problem of unemployment. Entrepreneurs also seek to resolve the other economic problems by making available products and services as per the requirement and need of people which increases the living standard of the country. The introduction of these commodities made possible only through the innovation of entrepreneur's and leads to increased productivity and intensified competition among the various firms within the economy. Identifying problem, for resolving the problem identifying the innovative idea and then converting it to the commercial value by entrepreneurs and try to develop new market for their product and creates job opportunities for us. When an entrepreneur starts any venture, he generates employment opportunities to the people to work with him and as the time passes the business venture may expand and gives jobs to more people. Entrepreneurs strive for solution through innovation and wealth generation by putting together all the factors of production needed to produce, offer and sell desired products and services. They invest and risk the resources available to them to generate wealth for themselves and their country. By creating job opportunities for people, an entrepreneur provides wealth to the people. With their

innovation, the use of country's resource, market competition, payment of levies, duties and tax generated wealth for their country also.

Entrepreneurs reshape quality of life and economic value by modifying the traditional system and technology used to create efficiency. For example, Ola is one of the world largest rides sharing company facilitate us and making our life more easier by proving cab to us as per our requirement of time and budget in just a single click. Another example is Zomato which delivers the food at our places in just one click. These kinds of innovations really made our lives easier than and affect our lives positively. Entrepreneurial activities provide strength to the small business, healthy market competition which in turn ensures that the best product and service are available to the people. Some other ways the entrepreneur can impact the economy of a country are optimum utilization of resources, generation of employment opportunities, community development and addition to national income. Entrepreneurs are the heart of any country's economy, and a country that invests in entrepreneurship has a better chance of an improved economy.

### 5. Strategies adopted by India for economic development

The strategies followed by India for the economic development are-

- In India there is direct involvement of the government in economic activities such as production and selling through taxation policies, tariffs and quotas.
- In addition, the Indian economy was sheltered from foreign competition through use of both the "infant industry argument" which means trade protectionism and binding foreign exchange constraint. Imports were limited to goods considered essential either to the development of the economy such as raw materials and machines or to the maintenance of minimal living standards such as crude oil and food items. It was further decided that exports should play a limited role in economic development, thereby minimizing the need to compete in the international market. As a result, India became a relatively closed economy, permitting only limited economic transactions with other countries. Domestic producers were sheltered from foreign competition not only from abroad but also from within India itself.
- At present India is trying to do import substitution and focusing on the production within India for which they are launching various schemes like Make in India, Start up India etc.
- Over time, India has created a large number of government institutions to meet the objective of growth with equity. The size of the government grew substantially as it played an increasingly larger role in the economy in such areas as investment, production, retailing, and regulation of the private sector. For example, in the late 1950s and 1960s, the government established public sector enterprises in such areas as production and distribution of electricity, petroleum products, steel,

coal, and engineering goods. In the late 1960s, it nationalized the banking and insurance sectors. To alleviate the shortages of food and other agricultural outputs, it provided modern agricultural inputs (for example farm machinery, irrigation, high yielding varieties of seeds, chemical fertilizers) to farmers at highly subsidized prices (World Economic Indicators, 2001). In 1970, to increase foreign exchange earnings, it designated exports as a priority sector for active government help and established, among other things, a duty drawback system, programmes of assistance for market development, and 100 per cent export-oriented entities to help producers export (Government of India, 1984). Finally, from the late 1970s through the mid-1980s, India liberalized imports such that those not subject to licensing as a proportion to total imports grew from five per cent in 1980-1981 to about 30 per cent in 1987-1988. However, this partial removal of quantitative restrictions was accompanied by a steep rise in tariff rates.

- The active and dominant participation by the government in economic activities resulted in the creation of a protected, highly-regulated, public sector-dominated economic environment. Along with this government domination of the economy, India soon faced not only some major problems in its overall approach to development, particularly in the area of industrialization, but also a dramatic increase in corruption in its economy. Finally, like any other growing economy, the Indian economy faced a number of serious sector imbalances, with short-workings in some sectors and surplus in others.

**3.1 Contribution of various sectors to GVA in India**

The share of various sectors (including manufacturing and services sector) in Gross Value Added (GVA) during last three years is given in the table below.

Share of sectors in GVA at current prices (per cent)			
Sector	2015-16 (2nd RE)	2016-17 (1st RE)	2017-18 (PE)
Agriculture, forestry & fishing	17.7	17.9	17.1
Industry	29.8	29.3	29.1
(Of which) Manufacturing	16.8	16.8	16.7
Services	52.5	52.8	53.9

Source: Central Statistics Office;  
Notes: 2nd RE: Second Revised Estimates, 1st RE: First Revised Estimates, PE: Provisional Estimates.

With the help of table we can analyze that the contribution of Primary sector in GVA (Gross value added) is 17.1% in 2017-18 whereas the share of secondary sector (manufacturing + industry) in GVA is 45.85 and the largest share is of tertiary sector which is the service sector is 53.9%. As the share of

secondary sector is less than service sector, so there is great need to focus on manufacturing sector as it is contributing the major part in GVA.

**6. Risk Perceptions of Indian Youth**

Today when we are going to start our career and searching for jobs for earning for our livelihoods we get on an average salary Rs.10000/- to Rs.15000/- per month which is very less as per the era and inflation. So we have next option is to start our own business and become entrepreneur and earn more. But due to the unawareness and lack of entrepreneurial skills most of us select the first option which is doing job rather than doing business. And business consist risk and uncertainty due to which many of us want to do job. And those who did the business than they don't want to grow and even they don't expand their business because following rules, regulations or norms, paying taxes, keeping records become secondary. They are pushed to the backdrop and bringing back to manifold is going to be a big challenge for any association and the government. Not all the Individuals with training and reinforcement or having sufficient fund etc., are successful entrepreneur, rather than those who actually have natural talent to make efforts for their success. These successful entrepreneurs are likely to be rational, optimistic, goal- oriented, persistent and possesses the most important trait i.e. Risk taking ability. There are different types of risks involved in starting up a venture like:

- a) Perceived risks could include personal risk (emotional stress, the uncertainty of success)
- b) Financial risk and uncertainties (loss of their hard earned money or savings, no resources to resort),
- c) Know-how to manage or bear the risk (lack of adequate knowledge and skills), or
- d) Vested interest risk (lack of fair and transparent regulations and effective law enforcement).

**7. India Lacks Behind In Promoting Entrepreneurs-Real Causes?**

As we all know finance act like life blood for any business that's why a continuous flow of funds are required by the entrepreneur, not only help in setting up of his/ her business, but also necessary for successful function as well as regular up gradation of the venture. To fulfill this requirement, the Government (both at the Central and State level) has been undertaking several steps like setting up of banks and financial institutions; formulating various policies and schemes, etc. The government has taken and is taking active steps to promote entrepreneurship in various industry & service sectors and has declared several policy measures. Government is also implementing schemes and programmes to boost the global competitiveness of small enterprises across the country. All such measures are specifically focused towards the promotion and development of small and medium enterprises but government should also focus on making people aware about their initiatives otherwise it is of no use if it doesn't reach its target. Although, Micro Small and Medium Enterprises (MSME) is one sector but the problems and issues of micro is different with small and with medium which should be taken into consideration while forming policies related to them. According to a survey, Bankers have their own norms for lending and are

using credit rating to these enterprises. Therefore, unless they find the projects creditworthy and profit generating, banks take less interest in these endeavour or if are ready, they charge a high rate of lending or cost of capital. Bankers, SIDBI and some organizations give funds to MSME only when enterprises have profits in their balance sheet. Government needs to form such policies that charge no tax until they establish themselves and start generating enough profit. It should step up their efforts to support skill and retraining activities to address the gaps between demand and supply of work skills and qualifications and to address short and long-term unemployment.

## 8. Findings

- Entrepreneurship plays a significant role in the economic growth of our country as secondary sector is contributing 27.03% in GVA (Gross value added) in 2018-19.
- Entrepreneurship leads to employment generation for the people of our country which reduces the problem of unemployment. Entrepreneurship also creates job for allied services.
- Entrepreneurship leads to balanced regional development which improves the infrastructure of the country.
- Entrepreneurship leads to capital formation which leads to economic growth and enhancement in GDP.
- There is a great need of skill development among people.
- Everyone is not aware about the schemes provided by government for the purpose of employment generation and skill development.
- Risk is involved in business that's why many people prefer job rather than doing some business.

## 9. Recommendations

- There should be extra efforts by government on initiatives like skill development has been proposed to provide essential support to make in India to thrive.
- India must also encourage high-tech imports, research and development (R&D).
- Government can provide the facility of doing registration and other things of the business online by uploading all the necessary documents, it will make the process easy for the potential entrepreneurs.
- Reforms like bringing more sectors under the automatic route, increasing the FDI cap and simplifying the procedural delays has to be initiated.
- India should consciously work towards attracting greater FDI into Research and Development.
- The implementation of make in India should be more emphasized and given proper attention for better outcomes.
- There is need to aware people about the various schemes of government that are formed to promote entrepreneurship.
- Establishment of management system and security strategy for information exchange space of the country.

- Political and economic support of production and offer of goods and services in entrepreneurship in education.
- Reinforcement and establishment of entrepreneurship culture, innovation management and risk management in the country.
- Promotion and improvement of supervisory and juridical circumstances and security guarantee of the network for entrepreneurs.
- Enhancement of culture and research motives and entrepreneurship development while defending rights of entrepreneurs.

## 10. Limitations

For promoting entrepreneurship, government needs to clear out certain loopholes. This research paper contains important problems, challenges and recommendations for the same with the help of secondary data, research paper underlines the following major challenges that hamper India to become global manufacturing hub and accordingly make:

- Building up infrastructure of various buildings and highways and improving the power capacity of the electricity plants for better supply to industrial sector.
- Heavy investments with the risk-involvement.
- India's labor laws are little bit traditional and old, so there is a great need to modify it as per scenario.
- India, in one sense has a federal structure which reduces the Central government's power in pulling off such schemes and ideas. Provision of utilities such as electricity, water, infrastructure development such as roads, law and order, land allotment, are all under state government's gambit.

## 11. Scope of future research

As we all know entrepreneurship is the vast field for study and plays significant role in the economic growth of India, so there is a huge scope of research on this topic related to government schemes, GDP, FDI, sector's contribution in national income, economic growth issues and opportunities. With the help research we can find more problems related to economy, more innovative ideas related to business, valuable suggestions for the improvement in the government schemes can be done. It also leads to the process of idea generation.

## 12. Conclusion

By fostering entrepreneurial activities, India can attain more economic growth because through entrepreneurship we can boost up the national income of the county as manufacturing sector contributing the major part in GDP. Not only entrepreneurship has been found to yield significant economic benefits in a wide variety of nations, but India specifically has reached a point in its development where it can achieve similar results through entrepreneurial efforts. As it also lead to employment opportunities and infrastructural development which are key elements for economic growth. India is poised to generate new business startups in the high technology area that can help it become a major competitor in the world economy. For example, it has a strong education

base suited to entrepreneurial activities, increased inflows of foreign capital aimed at its growing information technology services sector, and a host of successful new business startups. To pursue further the entrepreneurial approach to economic growth, Indian government must now provide opportunities for-

(1) Education related to developing entrepreneurial skills,

(2) Financing of entrepreneurial efforts

(3) Networking among potential entrepreneurs and their experienced counterparts for better outcomes.

The role of government is very important in the development of entrepreneurial sector as they are formulating tax related policies, various business regulatory policies and help the citizens of India to understand the link between entrepreneurial efforts and economic prosperity. Only time will tell if increased entrepreneurial activities in India will actually yield the economic benefits or not. India decides to pursue that avenue of economic development, and then future

research needs to examine the results of India's entrepreneurial programmes. Through creating awareness among people about the various schemes of government, we can motivate more people for opening their own ventures because government have large number of schemes related to subsidies and funding but people have no knowledge or less awareness about it. There is no scarcity of talent in India but due to the unawareness and the risk & uncertainty of the business people are preferring more to the jobs rather than business or doing something new. If India wants to utilize the best of entrepreneurial talent of its people then people who make policies must enact significant reforms that increase support for start-up in the formal sector, reduce barriers and most importantly spread awareness about what our policymakers planned for them. Spreading awareness will accelerate entrepreneurial growth and then their contribution to economy will increase that will be shown in the form of enhanced growth rate and employment rate, which eventually transit India from an emerging nation to a developed nation.

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