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Entrepreneurship and Its Impact on Economic Growth: An Indian Perspective

Gargi Banerjee*

Abstract

Individuals who create business and employment are entrepreneurs. Entrepreneurship is actually the ability to develop and sustain a business associated with risk, and ultimately make profit. Every entrepreneur aims to make profit for his own concern. Entrepreneurship is also associated with conversion of new innovation and technology into business, which ultimately generates employment and profit in the economy and thus the entrepreneurs contribute towards the growth of an economy. According to Schumpeter, innovation in business is the primary reason for increased investment and business ups-and-downs in an economy. Recently, women entrepreneurship in India is also making a mark in the society. Indian women have started taking initiative to make a start-up and start their career as entrepreneurs with small businesses and they are having success in their field as well. This means women in our society are progressive and capable of sustaining a business, which in turn helps in economic growth. Hence, the study also focuses on the women entrepreneur's contribution to the society. Along with this, the paper has also tried to focus on the growth aspects of entrepreneurship and its impact on the society and economy. Innovation in business improvises it as well as the role of the entrepreneur. It helps entrepreneurs to take decision to implement these new innovations in the business by taking risk and uncertainty. The paper will also highlight on this aspect of use of innovation by entrepreneurs in business expansion and analyse its impact on the sustainable growth of Indian economy.

Keywords: Entrepreneurship, Start-up, Growth, GDP, Women Entrepreneurs

Introduction

India as a developing country is yet to achieve a sustainable and balanced growth process to reach the level of developed nations of the world. Though growth and development are different terms in the sense of an economy but they are complementary to each other. Poverty and unemployment are the two biggest challenges faced by India since independence. The government had taken various policy measures in its different planning to alleviate poverty and unemployment. The government realised that poverty and unemployment could be reduced by effectively promoting small-scale industries and by offering promotional-package[1] to entrepreneurs. When we are discussing the entrepreneurship development in India, let us highlight the history of entrepreneurship development programs in India.

The entrepreneurship development program was initiated in 1962 with the establishment of Small Industry Extension and Training Institute (SIET), which started the entrepreneurship development in India. SIET, in collaboration with Harvard University, conducted Entrepreneurship Training Programs in many districts of Andhra Pradesh and Tamil Nadu, for 5 years and successfully imbedded the seed for entrepreneurship development program in India. Thus, Gujarat Industrial Investment Corporation started the first entrepreneurship development program in India in 1970, which emphasised on potential selective entrepreneurs to develop small-scale industries and earn profit out of them. With the objective to remove economic backwardness in the

[1] Promotional Package means financial incentives and infrastructural facility.

* NSHM Knowledge Campus, Durgapur, West Bengal, India. Email: gargibanerjee211@gmail.com.

North-East Region of India, North Eastern Industrial and Technical Consultancy and Entrepreneurial Motivation Training Centres were established in 1970s to promote entrepreneurship in the region. Hence, historically the government had been making attempts to encourage entrepreneurship to create economic liberty and generate employment in many parts of the country. SIET and Small Industry Development Organisation (SIDO), through Small Industry Services Institute (SISl), Industrial Development Bank of India (IDBI), and Technical Consultancy Organisations (TCOs), started organising Entrepreneurship Development Programs. The success of these programs resulted in the establishment of Centre for Entrepreneurship Development (CED), Ahmedabad, in 1979, and Entrepreneurship Development Institute of India (EDI), Ahmedabad, in 1983. So, the initiative of the government for the development of entrepreneurship had been started in India way back in 1970s. But the question is: have all these efforts really resulted into poverty alleviation and employment generation in the country? Can we really sight evidences where the entrepreneurs have genuinely helped in creating employment? To answer these questions, the present study intervenes into the causality existing between entrepreneurship and economic growth in India and the role and state of women entrepreneurship in our country, as presently women entrepreneurs are playing a vital role in shaping Indian growth path.

Literature

Entrepreneurship has long been considered as a crucial mechanism of economic development was revealed by (Schumpeter 1934; Landes 1998). According to Goyal, M. and Prakash, Jai. (2011), the greatest hindrances of women entrepreneurs in India to grow and become successful entrepreneurs are, the patriarchal male dominant society, lack of self confidence in women, women in India lead a kind of protected life and women in India gives more importance to family life rather than work. It is also found that entrepreneurship in low-income countries is mainly driven by necessity. Most new businesses started with a purpose of necessity in low-income countries as compared to the high-income countries (Bosma et al., 2008). It is also found in a study by Van Stel et al. (2005) that by the exploitation of economies of scale and scope and by adopting technology developed elsewhere, large firms in the developing nations are playing an important role in transforming the economy. It is claimed in some of the research, the growth of entrepreneurship is indispensible for economic growth by Wim Naude (2005). Entrepreneurship is the main vehicle of economic development (Anokhin et al., 2008: 117). Hart (2003, p. 5) defines entrepreneurship as the ‘process of starting and continuing to expand new businesses’. Hence, the new business and start-up ventures are all part of the entrepreneurship business.

Data Sources & Methodology

The data used in the study is mainly from secondary sources. The sources are Statistica 2018, RBI Handbook 2018, and MasterCard Index of Women Entrepreneurs (MIWE), 2018. The methodology used in the paper includes Granger Causality Test and Rank Correlation Test using SPSS software.

Entrepreneurship and Its Role in Economic Development

It is found all over the world that entrepreneurs create new business and thus also generate jobs, strengthen market competition, and increase productivity as well. Entrepreneurs start with new business in order to meet the deficiency in demand in the economy and, in the process, hire individuals which increases employment and standard of living of the people in the society. The role of an entrepreneur is not only confined to the closed market of an economy but increases with the globalisation and liberalisation of the economy. The entrepreneurs can also participate in the global market to extend their business and this increases the exports’ earnings in the economy and the overall development of the economy (Baumol, 1990). Foreign market and foreign technology have a significant role in the economic development of a country. The entrepreneurs can develop new schemes in the business, which gives the business a new dimension and more competitiveness in the market. India as a country has huge scope for entrepreneurship, especially at the micro scale. The small and micro business, which starts from the household, has huge scope for creating new business and service in the society like India. The local business of snacks and pickles may flourish in an area to such an extent that it makes profit, extends, and creates employment. This was just an example applicable to all societies of the world depending on their local needs. In today's competitive world, firms need to increase their efficiency by creating new products and services. Many studies identified the concept of introducing new products and services as entrepreneurship (Schumpeter 1934, Shane and Venkataraman, 2000). To sustain in entrepreneurship business, continuous innovation process is necessary and hence a high level of creativity is also required. This is possible when there is tremendous motivation from the firm and thus human resource management is an important factor, which influences any entrepreneurial business to sustain (Oldham and Cummings, 1996; Amabile, 1996; Zotto, 2008). To increase the scope of sustainability, the improvement of human source is extremely important. Hence, investment in human resource is necessary for the development of a form's efficiency and increases its competitiveness in the long-run. For the development of entrepreneurship business, human capital is required. It has been empirically found that the growth and survival of a firm depends on the share of investment of the firm on more qualified and experienced workforce, which one can refer to as human capital (Stel *et al*. 2009). Hence, the development of any new start-up depends on various factors. The growth of human capital in any society means that the society is progressing and hence moving towards economic development. The development of business leads to fruitful employment generation, which in turn leads to the economic development of the society as a whole.

In India, the Pradhan Mantri Mudra Yojana was launched in April 2015, with a fund of Rs. 3.1 billion and a credit guarantee scheme of Rs. 470 million. The objective is to finance and credit support to micro-finance organisations. The role of entrepreneurship in economic development has changed drastically in the past few decades. Solow identified that unskilled labour and physical capital are major factors of economic development and the crux of the economic development lies in the fact that there should be proper investment in physical capital, which increases the productivity and efficiency of the labourer (Solow, 1956). However, in this context, Table 1 gives a brief picture of the number of entrepreneurs filed in India, in the past one decade.

Table 1: Number of Entrepreneur's Memorandum Across India (2008–2016)

Year	*Number of Entrepreneurs*
2008	172,703
2009	193,026
2010	213,206
2011	238,429
2012	282,428
2013	322,818
2014	362,991
2015	425,358
2016*	217,854

Source: Statista (2018). *The figure of FY 2016 is available only till September, 2015.

Table 1 shows the statistics of the number entrepreneurs filed across India in the last few years. From the table, it is clear that in the financial year 2015 the number of entrepreneurship memorandum filed for starting a start-up was the highest in India so far. This also reveals the fact that with the initiative of the government, the new business is getting encouragement to start up. With the implementation of the Micro, Small and Medium Enterprises (MSME) Development Act, 2006, the number of registered entrepreneurs is growing in India with a lot of participation of entrepreneurs from all over the country. The increasing number of entrepreneurs indicates the initiative shown by the entrepreneurs and creation of employment in the economy. The top 10 states in India in 2014–15, which have filled for the entrepreneurship memorandum as per the MSME, are Tamil Nadu, Gujarat, Uttar Pradesh, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan, Kerala, West Bengal, and Andhra Pradesh.

Let us now see whether the increasing number of entrepreneurs has really contributed to the growth of India in terms of employment generation and standard of living. These increasing numbers of entrepreneurs create products and services that add a lot of value to the economy and society. This value creation may be reflected in GDP of the country. India is a country with vast manpower and is also country with a high level of unemployment. With the entrepreneurs starting more and more businesses, the scope of employment generation becomes higher and hence the society and the country are benefitted with the growth of entrepreneurship. To address this issue, the present study has applied causality analysis between the level of entrepreneurship and the status of economic growth. It has considered gross domestic product (GDP) at constant prices from the period 2011 to 2016 and taken Granger Causality of the number of entrepreneurs memorandum filed in the India during the same period of time.

Causality Analysis

The equations involved in the Granger causality test are:

$$GDP_t = \sum \alpha_1 (ENTP)_t + \sum\beta_1 (GDP)_{t-1} \qquad \text{-----------(1)}$$

$$(ENTP)_t = \sum\gamma_1(ENTP)_{t-1} + \sum\square_1(GDP)_t \qquad \text{-----------(2)}$$

ENTP means number of entrepreneurs memorandum filed during the period of 2011 to 2016.

Steps for Granger Causality Test:

- The study regresses the current GDP on all lagged GDP terms and other independent variable, which is not lagged. From this regression, we obtain the residual sum of squares.
- Next, the regression to be run includes one lagged independent variable term. From this, one can get the unrestricted sum of squares.
- The null hypothesis in H_0: $\sum\alpha_1=0$, i.e. the explanatory variables other than GDP are not included in the regression.
- The rule is if the computed F value exceeds the critical F value at the chosen level of significance then the null hypothesis should be rejected and one can say that the number of entrepreneurs has influenced GDP.
- The steps 1 to 4 can be repeated to test whether GDP causes entrepreneurship develop.
- The result in Table 2 shows the regression values of GDP and Entrepreneurship for the period of 2011 to 2016.

Table 2: Result of Regression from Equation-1

Direction of Causality	*F Value*	*Significance*	*Decision*	R^2
Entrepreneurship→ GDP	121.990	.001	Null Hypothesis Rejected	0.998

Source: Author's Calculation

The computed F value is 121.99 and the tabulated $F_{2,3} = 9.55$ at 5% level of significance.

Result of regression from equation-2

Direction of Causality	*F Value*	*Significance*	*Decision*	R^2
GDP→ Entrepreneurship	0.715	0.557	Null Hypothesis Accepted	0.323

Source: Author's Calculation

The computed F value is 0.557 and the tabulated $F_{2,3} = 9.55$ at 5% level of significance.

Hence, the result of regression from the two equations consisting of lagged explanatory variables rejects the null hypothesis in Eq. (1) and concludes that entrepreneurship causes GDP. Again with high R^2 (0.998) value and statistical significance, the study concludes that the growth of entrepreneurship will definitely influence the growth of GDP in our country. But from the result of regression from Eq. (2), it can be seen that growth of GDP does not mean the growth of entrepreneurship, i.e., the growth of GDP does not cause entrepreneurship to grow. There are other factors that cause the entrepreneurship to grow in a country like India. But with low R^2 (0.323) value and statistical insignificance, it can be said that the growth of entrepreneurship in India is hardly influenced by the growth of GDP in India in the recent times. Hence, from the result of Granger Causality done by F test, we find that *two-way causality* does not exist in case of growth of GDP and number of entrepreneurs in India. The entrepreneurship is the initiatives by individuals with innovative business ideas that satisfies the market demand and also generates income and employment for the society. In India, to become an entrepreneur, there are various hurdles like finance, official formalities, and with the introduction of GST and after demonetisation, the growth of new business is difficult to start. Again, if we consider the informal sector then there are huge numbers of micro and small entrepreneurs who are growing continuously in India. So, there is a larger potential for Indian entrepreneurs to participate in the growth stories and this supports the findings.

Growth of Women Entrepreneurship in India

In various indexes of development, India could not perform satisfactorily in various parameters included in the measurement of various indices. According to MasterCard Index of Women Entrepreneurs (2017), India ranks 50 out of 54 countries in the world in 2017 with a score of 8.2 percent (women business owners as percentage of total business owners). In all respects, this is a poor result for a country like India. The report focuses on female entrepreneur's ability to utilize the opportunities to become women entrepreneurs. Indian women face many hurdles in their path of progress, be it pursuing education, carrying a professional job, or starting a business (Goyal, 2011). The principal cause that drives a woman to become an entrepreneur is the self-motivation to provide for additional family income. In every sphere, the women are considered to be more responsible compare to their counterpart, which is the rule of society and the women have to take care of family and children all on their own responsibility. Even if the women are working, Indian family, in majority, dependent on her and the women have to carry out the household work. Along with these, there are various hindrances, both societal as well as governmental, that work as impediments for her to become a successful entrepreneur. Due to all these, the progress of women in India, as entrepreneur, is not at all satisfactory. In the recent study conducted by Global Entrepreneurship Research Association (GERA), London (GEM Report, 2016), on women entrepreneurship, it has been found that women entrepreneurship rose by 6 percent worldwide, in the past 2 years. The MasterCard Index of Women Entrepreneurs Report (MIWE, 2017) indicators such as financial inclusion of women, cultural perception of women entrepreneur, and entrepreneurial supportive factors are the strongest enablers of women participation in business. According to this MIWE report, women entrepreneurship in India seriously lacks in the field of financial funding, self-belief or entrepreneurial drive, training and education, etc., along with the fear of failure and various sociocultural restrictions.

Table 3 shows the status of women entrepreneurs in India with respect to other countries of the world in the measurement of Women Business Ownership. The data shows a glimpse of the women business owners as a percentage of total business owners, comparing 57 countries of the world.

Table 3: Country-wise Percentage of Women Business Owners as a Percentage of Total Business Owners (2018)

Rank	*Country*	*Percentage of Women Business Owners*	*Type of country*
1	Ghana	46.4	Lower middle income
2	Russia	34.6	Upper middle income
3	Uganda	33.8	Low income
4	New Zealand	33.0	High income
5	Australia	32.1	High income
6	Vietnam	31.3	Lower middle income
7	Poland	30.0	High income
8	Spain	29.4	High income
9	Romania	28.9	Upper middle income
10	Portugal	28.7	High income
11	Peru	28.3	Upper middle income
12	Hungary	28.1	High income
13	Argentina	27.7	Upper middle income
14	Singapore	27.5	High income

Rank	Country	Percentage of Women Business Owners	Type of country
15	Brazil	27.2	Upper middle income
16	Canada	27.0	High income
17	Uruguay	26.7	High income
18	Bangladesh	25.9	Lower middle income
19	Italy	25.7	High income
20	Colombia	25.7	Upper middle income
21	Switzerland	25.5	High income
22	Belgium	25.5	High income
23	United States	25.5	High income
24	Germany	25.3	High income
25	Thailand	25.2	Upper middle income
26	Chile	25.1	High income
27	UK	25.0	High income
28	France	24.6	High income
29	Botswana	24.5	Upper middle income
30	Korea	24.1	High income
31	Philippines	23.9	Lower middle income
32	Czech Republic	23.6	High income
33	China	23.1	Upper middle income
34	Denmark	23.0	High income
35	Honk Kong	22.0	High income
36	Ecuador	21.9	Upper middle income
37	Sweden	21.8	High income
38	Costa Rica	21.6	Upper middle income
39	Taiwan	20.6	High income
40	Ireland	21.1	High income
41	Mexico	19.3	Upper middle income
42	South Africa	18.8	Upper middle income
43	Nigeria	17.8	Lower middle income
44	Israel	17.5	High income
45	Japan	16.8	High income
46	Malaysia	16.7	Upper middle income
47	Indonesia	15.8	Lower middle income
48	India	11.0	Lower middle income
49	Tunisia	9.9	Lower middle income
50	Ethiopia	9.5	Low income
51	Turkey	8.5	Upper middle income
52	Malawi	8.0	Low income
53	Algeria	7.9	Upper middle income
54	Iran	6.1	Upper middle income
55	Egypt	3.3	Lower middle income
56	UAE	2.8	High income
57	Saudi Arabia	1.4	High income

Source: MasterCard Index of Women Entrepreneurs (MIWE), 2018

Table 3 shows that India ranks 48th out of 57 countries selected by MasterCard to study for women entrepreneurship in the world with a score of 11 percent. Though the numbers have improved compared to 2017 data, still it's far from being complacent. Data shows women entrepreneurs are more in numbers and are more successful in developed countries such as New Zealand, Canada, Sweden, and the United States, who have channelized theirs fruits of development to every aspect of the society, including women entrepreneurship. But United Arab Emirates and Saudi Arabia are exceptions (in fact, these are the countries having high per capita income and not being overall developed). Form Table 3, one can conclude that Indian society needs to develop in respect of women participation in workforce and as well as entrepreneurship.

Table 3 has been analysed with Kendall Rank Correlation Coefficient and Spearman's Rank Correlation Coefficient. Table 4 shows the result of the correlation between rank of the countries according to women business owners and category of the countries according to their development. 57 countries have been ranked according to their development phases and found their correlation with the ranks of women business ownership. Table 4 shows the result of rank correlation between the two categories of rank.

Table 4: Result of Rank Correlation

Type of Test	*Correlation Between Income Rank & Rank of Women Business Ownership*	*Significance*
Kendall's Tau Correlation	0.132	0.202
Spearman's Rank Correlation	0.163	0.225

Source: Author's Calculation

From the above correlation analysis, it is found that in both the analysis the correlation between the rank of the countries in accordance with the development and rank of the countries in accordance with the women ownership in business is very low and also statistically insignificant. Hence, one can conclude from this result that women participation in entrepreneurship has not reached that level where it can influence the development of a country as seen from the data analysis of 57 countries of the world. But since off late, women entrepreneurship is growing across the world, the correlation is low but not negative. From this, one can say that the spread of women entrepreneurship across the world has not been sufficient enough to influence the economic growth of the country as we have also seen from the Causality results of India's GDP and number of entrepreneurs in India during 2011–2016.

Conclusion

Entrepreneurship and economic development go hand in hand to make the development process sustainable. Present study of entrepreneurship development and its impact on Indian economy found that though the numbers of business entrepreneurs are growing in India, the time series data analysis of the recent past shows that the growth of entrepreneurship definitely has its impact on the growth of GDP. But the reverse is not always true as the study has found that the growth of GDP does not necessarily mean the growth of entrepreneurship. With the introduction of GST in India since July 2017, the process of registering for tax payment and payment of taxation for small businesses has become easier and simpler. Therefore, with the introduction of GST, the new entrepreneurs are on a comfortable side as the trade among different states of India has now become easier as they have to pay a single tax to the central government. There are also increased threshold limits for new businesses for tax payment. But in the aspect of women entrepreneurship, we can say that if a less developed country like Ghana could make it on the top of the rank of women entrepreneurship, then why cannot India. Hence, greater number of women in India have to take sufficient initiative to break the glass ceiling and take their own business decision. Thus, we can say that the growth of entrepreneurship, whether it is small or big, formal or informal, impacts the economy with the creation of income and employment; but considering the society of India, we still run for jobs rather than starting new business. Hence, if India has to run on a sustainable long-run growth path, entrepreneurship development is going to be one of the most crucial factors. Thus, entrepreneurship is considered as the driving force of the economic development towards sustainability.

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