

# A study on the Importance of Entrepreneurship to the Indian Economy

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## Abstract

As a fundamental goal, achieving development is conditioned to optimal utilization of all available resources. Human workforces, among other resources, play a vital role in economic development. Thus, the essential purpose of this paper is to examine the relationship between entrepreneurship as intellectual capital and the economy. The data on economic growth and entrepreneurship are employed as explained and explanatory variables, respectively. The data for this study are collected from NSSO, I.L.O., and the World Bank data sites. The results show that entrepreneurship positively and significantly affects economic growth.

## What is Entrepreneurship

The word entrepreneur in french means 'to undertake.' The Webster dictionary defines an Entrepreneur as one who organizes, manages, and assumes risks of a business. The entrepreneurial spirit is a mindset. It is an attitude to thinking that seeks out change rather than waiting to adapt to change. It is a mindset that embraces critical questioning, innovation, service, and continuous improvement.

An entrepreneur plays different roles, such as an individual who assumes uncertainty associated with risk, supplies capital, starts a new venture, allocates resources, is a decision maker, and manages and is an innovator.

There are different types of Entrepreneurs Early starters-are the ones who start a business at a tender age of 15-25 years, Experienced-are the entrepreneurs who are in the age group of 30- 40 years, Mature-are the ones who are above 50 years, First generation entrepreneurs are those entrepreneurs who do not have a business background, the type of entrepreneurs are those from business families, Minority Entrepreneurs, Women Entrepreneurs, Serial Entrepreneurs, and Portfolio Entrepreneurs.

Based on the nature of your business, they are classified as

- a)Manufacturing
- b)Service.

Based on the size of the business, they are classified as

- a)Micro
- b)Small
- c)Medium

Entrepreneurs' characteristics are Commitment and determination, Leadership, Opportunity obsession, Tolerance of risk, Creativity, Self-reliance, and Motivation to excel.

**Objective:** To study the importance of Entrepreneurship in India

### **Literature Review:**

Acs and Armington (2002) link a measure of entrepreneurship to growth at the regional level. Their paper makes three significant contributions. First, their approach is more comprehensive, including data for the whole private sector rather than selected industries. Second, their unit of analysis was not limited to cities index but covered all local economic units; third, they used a direct measuring of entrepreneurial activities. It was the rate of new enterprises turning up in every local economy. They tested the hypothesis that increased entrepreneurial activity leads to higher growth rates in local economies. They found that higher entrepreneurial activity levels are positively associated with higher growth rates, even after controlling for establishment size and agglomeration effects.

Some studies tried to explain entrepreneurship as an essential factor in explaining higher levels of economic growth in countries or various districts of a country. Van Stel et al. (2004, 2005) applied three explanatory variables of the economic growth of a country: the rate of entrepreneurship, output per capita, and the world competition index.

Using data from G.E.M., they found that the entrepreneur activities rate positively affects economic growth. Salgado-Banda (2005) proposed a new variable to measure entrepreneurship. The paper studies the impact of self-employment on economic growth. The study considered 22 OECD countries and found that self-employment appears to be negatively correlated with economic growth. The findings were backed by a battery of econometric specifications and techniques.

Using the production function of Cobb-Douglas, Wong Ho, and Autio (2005) explained entrepreneurship and technological innovation as growth factors in developing countries. The results suggest that the rapid growth of new companies creates jobs in small and medium-sized companies.

Audretsch et al. (2006) speculated production function through a sample in Germany in 1990. They calculated a positive relationship between entrepreneurship, capital, and local economic growth. Further, Klepper et al. (2007) concluded a positive relationship between self-employment rate and economic growth using data from the World Bank. Theoretically, there is evidence that not only does entrepreneurship eradicate employment, but unemployment itself also increases unemployment. This hypothesis was tested by Audretsch and Thurink in 2001 using panel data of 23 OECD countries during 1974 - 1998.

Stam and van Stel (2009) used two scales measuring entrepreneurship: The rate of entrepreneurship based on necessity and opportunity. Results indicated that the effect of these scales depends on the level of development in these countries.

Koo and Kim (2009) established a model of economic growth. Economic growth is the growth rate of economically beneficial local knowledge functions of R & D, university research, social capital, entrepreneurship, human capital, and the industry's structure. They found that entrepreneurship has a significant role in regional growth.

## **Importance of Entrepreneurship to the Indian Economy**

### **Entrepreneurs Add to National Income**

Entrepreneurial ventures generate new wealth. Existing businesses may remain confined to the scope of existing markets and may hit a glass ceiling in terms of income. New and improved products, services, or technology from entrepreneurs enable new markets to be developed and new wealth to be created.

Additionally, increased employment and higher earnings contribute to better national income through higher tax revenue and government spending. The government can use this revenue to invest in other struggling sectors and human capital.

### **Entrepreneurs Create Social Change**

Through their unique offerings of new goods and services, entrepreneurs break away from tradition and indirectly support freedom by reducing dependence on obsolete systems and technologies. This results in an improved quality of life, more excellent morale, and economic freedom.

In India, according to NSSO statistics, in the year 2012, there were 514 million workers who are 51.4 crores, out of which 487 million workers or 48.7 crores are working in the Informal sector, and 27 or 2.7 crores workers are working in the organized or formal sector which means that majority of our workforce is employed in small jobs and the growth of Entrepreneurship can enhance the standards of living of our people.

According to MSME Act 2006, enterprises are divided into Manufacturing Sector Enterprises and Micro Enterprises. Manufacturing Sector Enterprises are again divided into micro, small and medium enterprises. Micro Enterprises are the ones where the Investment in plant and machinery does not exceed 25 lakh. Small Enterprises are the ones where the Investment is between 25 lakh rupees to five crores; medium enterprises are the ones where the Investment is between 5 crore rupees to 10 crore rupees.

In Service Sector, Enterprises based on Investment in equipment enterprises are divided into micro, small and medium.

Micro Enterprises- Does not exceed ten lakh  
Small Enterprises - 10 lakh to 2 crore rupees  
Medium Enterprises- 2 crore rupees to 5 crore rupees

### **Contribution of MSME to country's G.D.P.**

According to Indian Govt data, MSME contributes to 8% of the country's G.D.P., 45% of the Manufacturing sector, and 40% of the country's exports. Small businesses in India create 1.3 million jobs/per year. They are providing the largest share of employment after Agriculture. About 15000 small business owners have registered with eBay to export their products globally. In India, there are 48 million small businesses.

### **Conclusion and suggestions**

This study estimated the effect of entrepreneurship on economic growth using a panel data method. For this purpose, the rate of new entrepreneurship and economic growth were used as the main variables of research.

As expected, compatible with literature, there is a positive and significant relationship between economic growth and entrepreneurship. In other words, results show that expanding and increasing entrepreneurship in a country can result in higher economic growth.

Based on the results, authorities can achieve a more dynamic economy by prevailing entrepreneurship.

Regarding entrepreneurship development, formal and informal education has the

most crucial role. Educational institutes, including high schools, vocational education centers, and universities, must consider the required education for developing entrepreneurship and establishing culture. In their training, innovation and creativity must be valued.

Furthermore, companies Research and Development (R & D) departments must be an open field of growth for creative people and entrepreneurs. The role of entrepreneurs and motivation for excessive labor to produce a new product and new procedures in production should be valued.

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