

Sustainable Economic Development and the Role of Entrepreneurship Factor

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Abstract

The purpose of the study is to conduct an in-depth analysis of the degree to which the entrepreneurship factor would enhance sustainable economic development. The analysis will run a comparative analysis on how the entrepreneurship factors would add value to sustainable economic development. It is worth mentioning that entrepreneurship is a factor of production per se. The design was based on secondary research but then focused on appropriate data that addressed the research objectives. The main data had been obtained from business and investment reports. On the other hand, the researcher conducted an evaluation of the entrepreneurship factor in sustainable economic development. In general, a review of relevant literature was undertaken and fundamental issues were identified. The research analysis contains a discussion of the entrepreneurship factor in sustainable economic development. Particular attention has been given to the contribution entrepreneurial activities have to sustainable economic development. The study also conducts a risk assessment among the three factors of production capital, labor and now entrepreneurship to assess the one that would have minimal risks in as far as sustainable economic development is concerned. The researcher purports that the entrepreneurship factor can extend quite a number of advantages through innovation, product development, and competitiveness, thus creating a more sustainable economic development. This research analysis brings together the discussion on the entrepreneurship factor and its relationship with sustainable economic development. Therefore, it should be a great resource to the managers and policy makers in their quest to enhance sustainable economic development especially in a strategic context.

Keywords: Entrepreneurship, Sustainable Economic Development, Risk Analysis, Research and Development.

1. Introduction

This study discusses the “Sustainable Economic Development and The Role of Entrepreneurship Factor”. To address the main issues the researcher will link the concept of entrepreneurship with key economic aspects such as innovation, employment, welfare and financial crisis. This will be an analysis based on qualitative data and approach; thus, analysis and opinion will accompany the study.

1.1. Research Question

Q. What is the role of entrepreneurship toward sustainable economic development?

Evaluation on Entrepreneurship

It is the case that evaluations on how the entrepreneurship concept has been evolving began with Schumpeter's work. The critical point is that the entrepreneurial activity generates new jobs at the same time enabling individuals to be self-employed. This, in turn, creates more income possibilities (Kriščiūnas and Greblikaitė, 2007).

1.2. Entrepreneurship and Organizational Wealth Creation

Wealth creation is among the most essential goals of any organization. In this regard, all efforts toward strategic management and entrepreneurship endeavor to ensure that this goal is fully realized. According to Rumelt et al., (2004) decisions related to strategic management play an important role in heterogeneity in regard to a company's performance and creation of more value. The other essential note is that entrepreneurship serves as an important channel for the creation of new wealth (Hisrich and Peters, 2004). In the same respect, corporate entrepreneurship is a pillar to effective organizational performance, economic development, and wealth enhancement. A cross section of researchers has demonstrated a keen interest on the significance of entrepreneurship especially in revitalizing and improving the performance of corporations (Zahra, 2005). Corporate entrepreneurship when implemented would play a crucial role in large organizations where even small and medium enterprises would benefit equally (Carrier, 2004). Both micro and macro economies would benefit from corporate entrepreneurship because it enhances productivity and practices as well as creation of new industries and strengthening international competitiveness (Wennekers and Thurik, 2003).

Research indicates the gap in literature between the link between corporate entrepreneurship and wealth creation. However, a greater part of studies related to corporate entrepreneurship processes and development assessed the main effects of the latter and its contribution to growth and profitability. On the contrary, there has been little research on the evaluation of the indirect implications of corporate entrepreneurship and other contingencies toward growth and profitability; particularly, organizational wealth.

The other point is that entrepreneurship at the corporate level improves the desired results. As such, entrepreneurship in established organizations serves as a sine qua non for growth and profitability (Covin and Slevin, 2004). In the same context, corporate entrepreneurship positively contributes to the success of an organization and supports growth and profitability (Zahra and Covin, 2003). Corporate entrepreneurship has also been used as an effective predictor of growth in the case of small businesses (Covin, 2003); the same applies to the ability to perform amidst hostile environments. This has also been used to explain the role of entrepreneurship toward the sustainability of US health care firms, for instance (Stetz et al., 2002). Like in the case of Slovenia and the United States, corporate entrepreneurship has been credited because of the growth of firms and industries. In particular, corporate entrepreneurship has been associated with profitability of Slovenia's firms. According to Wiklund, (2002), entrepreneurial orientation of firms commands long-term sustainable growth

and financial performance. In the same vein, entrepreneurship also results in the creation of more value (Hisrich and Peters, 2004). The other thing is that the degree of profitability may be considered as a sine qua non for improvement of the current wealth of an organization. In other words, it enhances the achievement of new wealth for an investment. However, it is critical, noting that profitability cannot be the same as new wealth. This is because the latter serves as a function of the organization's growth rate because of the fact that profitable firms that command higher growth would achieve larger stock in terms of new funds compared with firms with minimal growth rate. Organization wealth creation has been termed as one of the essential outcomes of corporate entrepreneurship. It is held that organizations with entrepreneurial strategies have more potentiality to high levels of profitability, growth, and sustainability, including new wealth creation compared with ventures that engage in the same at a lower level (Bostjan and Hisrich 2004).

1.3. Consider the following hypothesis:

Hyp1: Corporate entrepreneurship positively relates to organizational performance in respect to growth, profitability and creation of wealth. It is worth noting that the link between organisational factors and corporate entrepreneurship has its impact on performance. As mentioned earlier, researchers opine that organizations that have entrepreneurial orientations achieve higher levels of growth, wealth creation, and profitability. According to Naman and Slevin, (2003), organizational factors and corporate entrepreneurship play an essential role toward the enhancement of a firm's performance.

1.4. Consider the second hypothesis below:

Hyp2: Organisational performance in terms of growth, profitability and wealth creation derive positive influence through the degree of interaction between organisational factors and corporate entrepreneurship. It is worth stressing that organisational factors refer to aspects such as formal controls, strategic management, and organizational support (Bostjan and Hisrich, 2004).

2. Further Analysis on Entrepreneurship

According to the earlier findings it was established that entrepreneurship creates more investment opportunity including wealth creation. This, in turn, has a fundamental purpose toward the success of the person and the organization (Davidsson, 2005). From a traditional context, entrepreneurship has been associated with uncertainty or risk -taking. It also refers to the efforts of the entrepreneur who focuses on transforming goals and objectives into business activities. It is expressed that in light of the Schumpeterian theory, entrepreneurship has been regarded as a dis-equilibrating process and not an equilibrating force (Gregoire et al., 2006). Furthermore, new theories have been developed to support the idea that companies that exhibit entrepreneurial characteristics remain innovative hence culminate in a high degree of economic growth (Katsikis, 2009).

3. Entrepreneurship and Economic Development or Sustainability

Research indicates that in the case of the United Kingdom and the United States, different efforts carried out in 2008 by state authorities translated into a massive increase in the level of deficits in the public sector (De Lisle, 2007). The main issue is that financial malpractices and misappropriation led to the emergence of the debt crisis in many countries such as China, India, and the United States. As a remedy, these nations focused on enhancing entrepreneurial activities for their firms (Jain and Pisani, 2008). Another case refers to Latin America which also faced serious challenges in coping with the financial crisis. Thus, Schumpeter Joseph upon analyzing the effects of the Great Depression, purported that such financial crisis makes it imperative for nations to be more entrepreneurial (Chaston and Scott, 2011). According to other studies, it is believed that innovation will enable firms to grow from an economic crisis and remain competitive in cutting costs or improving internal efficiencies (Trott, 2008).

According to the view held by Carson et al. (2005), viability of scale of the market is greatest for firms that have sound orientation to entrepreneurship. Moreover, it is held that entrepreneurship orientation emerges where top managers take risks, accommodate change, and at the same time, take advantage of innovation to obtain a competitive advantage (Chaston and Scott, 2012).

Firms that venture more on entrepreneurial activities acquire innovation and have support for business growth and expansion (Hill and La Forge, 2002). Entrepreneurial organizations have the ability to obtain economic improvement following their openness to transforming business processes among other issues (Georgelli et al., 2000).

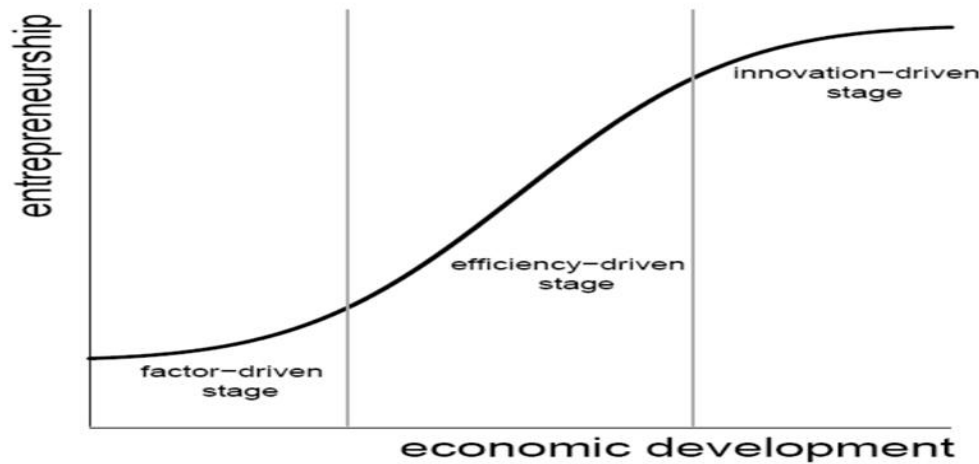
Consider the hypothesis below:

Hyp3: Firms characterized by entrepreneurial orientation command a higher business performance

It is believed that an elite entrepreneurial class did contribute to economic development. In the same context, entrepreneurship is regarded to have a positive contribution to economic development by virtue of creating employment, welfare, and innovation.

Figure 1 demonstrates the relation between economic development and entrepreneurial orientation.

Figure 1: Entrepreneurship and the Equivalent Stages of Development



Source: (Acs and Szerb, 2010)

Figure 1 above demonstrates a few trends: for instance, the intersection of the S-curve indicates that entrepreneurship serves as a resource; the other insinuation is that societies have some degree of economic activity distribution where the same takes place among “productive, unproductive, and destructive entrepreneurship” (Acs and Szerb, 2010). It is also the case that as institutions acquire more strength and solid ground, entrepreneurial activity shifts toward productive entrepreneurship thus improving economic development (Acs and Szerb, 2010).

It has been demonstrated empirically that “opportunity-driven” entrepreneurial orientation serves as the source of growth in the modern market economy. For instance, in the case of Japan, entrepreneurship has added value to the state’s economy even after the occurrence of the financial crisis of 1991.

There are many aspects that have impact on the growth of the economy, such as, education, and property rights. However, few economists have looked at entrepreneurship as a sine qua non for sustainable economic development. According to Nazir and Ramzan, (2012), entrepreneurship is a critical factor in the achievement of economic growth.

4. Extended Definition of Entrepreneurship in Relation to Economic Growth

Although entrepreneurship is all about the activities carried out by individuals, the concept of economic growth has often been relevant at the firm, industrial, national and regional levels (Robbins, Pantuosso, Parker and Fuller, 2000). This implies that linking entrepreneurship to economic growth will be to amalgamate individual to aggregate levels. Considering this linkage, however, requires revisiting the definition of entrepreneurship, whereby entrepreneurs, either as individuals or a team, manifest their willingness and abilities to create new opportunities in the economy (Todtling and Wanzanbock, 2003). In this manner, novel products, production modalities, organizational schemes, and product-market combinations are created. The entrepreneurs seek to introduce their newly crafted ideas in the existing market in the face of obstacles and uncertainties. They also make critical decisions in terms of business location,

forms, and the utilization of available resources and institutions (Acs and Armington, 2004). In a nutshell, entrepreneurship refers to the behavioral attributes of individuals and should not be confused with well-defined professional persons (Lloyd-Ellis and Bernhardt, 2000).

5. Entrepreneurial Effects in the Growth of Economy

To sum up the contributions of entrepreneurship to economic growth Carree and Thurik, (2002) have provided five strands of empirical evidence to show their involvement. The first evidence mainly deals with the turbulence effect of entrepreneurship on the growth of the economy. Turbulence can be viewed as the total entries and exits in regions or industries and can easily be interpreted as one of the powerful indicators of entrepreneurial activities. The effect of and changes in size distributions in regions represent the second strand of evidence as identified by the two researchers (Lloyd-Ellis and Bernhardt, 2000). It is believed that the change in size distribution and its ultimate effects can have a significant impact on the growth of economy (Carree, Van Steel, Thurik and Wennekers, 2002). Third, the number of market participants in any industry will finally have a beneficial effect on economic growth, and this is recognized as another strand of evidence of the role of entrepreneurship in economic expansion (Chell and Özkan, 2010). Empirical literature has also identified the effect of the number of business owners and self-employed individuals in economic growth. This is the fourth strand of evidence that seeks to appreciate the role of self-employment in the growth of the economy in any state. Lastly, the economic history of previously centralized and planned economies will also have an influence in the economic growth of countries (Carree, Van Steel, Thurik and Wennekers, 2002). For instance, in Eastern Europe, small enterprise development served as the most vital part of the transitional process which has seen economic growth in the area.

The turbulence effect of entrepreneurship on economic growth refers to the entry and exit, which, however, appears to have minimal contributions to the growth of the economy in the short run (Bathelt, 2001). Nevertheless, the entry-exit turnover will make a significant contribution especially in the service industry compared with the manufacturing industry in the long run as evidenced by empirical research conducted by Bosma and Nieuwen-huijsen, (Chang, 2011). The effect of the size distribution changes of firms on growth performances has also been recognized particularly when examining the share of small firms in the manufacturing industry in the European states. Competition among firms which is a commonplace for entrepreneurs, has been demonstrated to have a positive impact on the growth of economy (Carree, 2002). The increased numbers of participants in the market compounded with entrepreneurial activity are some of the contributions of entrepreneurship in economic growth (Chell and Özkan, 2010). In particular, local competition, which is measured in terms of the relative number of businesses in a region per worker encourages the growth of employment in industries thus economic growth.

Entrepreneurship encourages self-employment, and this has been found to have an impact in productivity growth (Chang, 2011). However, this is, a much contested observation whether countries should adopt the equilibrium or the self-employment model, which has largely failed countries such as Italy. According to Chang (2011), the high levels of self-employment in the country have proved to be inefficient for economic development. Italy has in the past experienced large negative impacts on the growth of its economy because of self-employment.

Scandinavian countries represent cases of countries with relatively low rates of self-employment than the equilibrium and have often been characterized by extensive public sector and low rates of entry and exit. The contrary is seen when analyzing the business structure in West Germany where they have low rates of self-employment (Van Steel, Carree and Thurik, 2004a). In Germany, there is a total failure in restructuring the economic policies as the United Kingdom has done. The industrial policy in Germany has repressed the structural changes by solely supporting large-scale industries with enormous subsidies. This has led to the lack of a vibrant economic growth made of new industries and firms in Germany and, thus, a serious barrier to innovative activity.

6. Analysis, Discussion and Conclusion

In light of the above-mentioned findings, it is the case that entrepreneurship positively contributes to sustainable economic development. This is because entrepreneurship comes with fundamental economic stimuli such as innovation, job opportunities, and product development which eventually generate value. The researcher holds the opinion that sustainable economic development encompasses many things; therefore, entrepreneurship cannot be entirely regarded as the major or sole factor supporting the economic development. Generally, what can be ascertained is the fact that entrepreneurship has a positive impact on economic development.

Going deeper into the matter is the quest to understand fully the main issues embedded in entrepreneurship that, in turn, translate to sustainable economic development. In the findings, it was seen that entrepreneurship helps in the achievement of innovation, employment, and welfare. This can be said to be among the major issues that act as boosters of a sustainable economic development. The researcher holds the opinion that for an economy to be efficient, it must maximize employment. Well, there are other issues such as investment, average living standards, and output per unit of input, which must be taken into consideration. The critical point is that entrepreneurship is the main source of employment; once the latter has been achieved, there will be more innovation and reward for skill, which may be measured in terms of salaries and remuneration. Therefore, taking the case of salaries and remuneration, it would mean that employees/laborers have a source of income, which, in turn, makes them earn a living. Most importantly, it makes them meet their basic needs per se, and the reader will concur that income is a critical factor in enabling the people cope with economic hardships. Thus, where income is low, the people would have serious difficulties coping with challenging economic moments; where the income is high the same people would not have a rough time in coping with the economy. As can be seen, the researcher links income to entrepreneurship by affirming that the latter is the foundation of the former. Hope, this statement does not confuse the reader. However, entrepreneurship is itself a source of employment where the economy succeeds in providing people with income.

The other interesting finding is how a few scholars did link entrepreneurship and financial crisis. In fact, it was noted that entrepreneurship activities may be used to enable a nation come out of the challenges posed by the financial crisis. This is a critical issue because Great Depression is among the global issues that destabilized the economy. It would be worthwhile to examine

more intensively the role of entrepreneurship toward addressing the challenges posed by the financial crisis.

By definition, financial crisis serves as the situation whereby the worthiness of financial institutions or assets depreciates in a rapid manner. Moreover, such a situation refers to panic or bank runs where investors dispose all their assets or withdraw their funds from savings under the insinuation that their worth would decrease if allowed to remain in the financial institution (Davies, 2010).

The question then would be the following: what role does entrepreneurship play in ensuring that the value of assets does not depreciate rapidly? How does entrepreneurship prevent bank runs or withdrawal of funds? This is a complex matter because the financial crisis in itself cannot just be limited to one thing or the other. However, in the earlier discussions, it was opined that entrepreneurship creates more opportunities and wealth. The reader will agree that wealth creation, for instance, sends to the investor a kind of psychological stability whereby they would have more propensities for risks. In other words, investors who have psychological confidence in operating in risky economic environments because they witness more opportunities and wealth creation would not rush to withdraw their funds from the bank; in the same vein, they would not be quick to dispose or sell their assets with the fear that they would lose value in the future. This is exactly what entrepreneurship would do, for instance, create an atmosphere (characterized by opportunities and wealth creation), whereby the investors would have confidence in the economic situation. This is how one would argue when looking at the possible ways entrepreneurship addresses the challenges posed by the financial crisis.

In general, the main findings have established that entrepreneurship plays a significant role toward sustainable economic development. It was also demonstrated that entrepreneurship occasions other variables such as employment, innovation, and welfare where all have a pivotal role toward economic sustainability and development.

However, in the Future, this analysis can be approached as a primary research where scholars may empirically test the following variables:

Independent Variable: Entrepreneurship factor

Dependent Variable: Sustainable economic development

Moreover, the quantitative approach would also yield verifiable results to the few hypotheses formulated in the current study.

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