

What is the role of an entrepreneur in economy and society essay sample

[Economics](#)



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Introduction

Entrepreneur is a hot topic for both academic scholars and people ambitious for business success. They are a group of persons who can significantly influence many aspects of economy and society. This paper will critically discuss the role of entrepreneurs by examining their contributions to the economy and society, using examples from various articles on the topic.

Starting by defining the entrepreneurs to be discussed, this paper examines the contributions to economy from the aspects of employment, innovation, productivity and growth, utility; certain costs or drawbacks are also considered. Though the business activities of entrepreneurs produce social benefits as well, some entrepreneurs have begun to put social issues in priority. Labeled as social entrepreneurs, they are devoted to solving social problems. In fact all the entrepreneurs have the potential to contribute to social benefits and are expected to achieve these goals, for example to implement sustainable development.

In the wake of the appearance of many problems in our societies and communities, and the awareness of the emergence, the public have raised the expectations of CSR (corporate social responsibility) not only on large companies, but also increasingly more on entrepreneurial ones. In the context of the current society and economy, especially in developed economies, entrepreneurs are expected to have higher commitment to social responsibilities.

Before this topic can be discussed in depth, the first question to be answered is “ Who is an entrepreneur?” The definition varies between different groups <https://assignbuster.com/what-is-the-role-of-an-entrepreneur-in-economy-and-society-essay-sample/>

of scholars. The definitions of entrepreneurship currently being discussed by scholars are focusing on the functional level, after shifting from the analysis of individuals. Here are the three main definitions: Gartner's (1988) "Entrepreneurship is the creation of new organization", Venkataraman's (1997) "Entrepreneurship as a scholarly field seeks to understand how opportunities to bring into existence 'future' goods and services are discovered, created and exploited, by whom, and with what consequences".

Entrepreneurship Division's (2002) broad coverage in commercial activities, "The Entrepreneurship Division's domain is the creation and management of new business, small businesses and family firms, as well as the characteristics and special problems of entrepreneurs..." The definitions outline the range of entrepreneurship, along with indicating some of the essential contributions and values of entrepreneurs, the creation of something new, new value, innovation, etc.

In this paper, another proposed definition is adopted, which puts entrepreneurship in a broader context of the social and economic environment, so as to facilitate the examination of entrepreneurs' roles in economy and society. "Entrepreneurship involves individuals and groups of individuals seeking and exploiting economic opportunity" (McKenzie, Ugbah and Smothers, 2007).

Recently, due to the role of entrepreneurs focusing more on social aspects, the research of social entrepreneur is of greater interest for many scholars and researchers. Similarly, the definition of social entrepreneurs is being debated. Considering the aim of this paper is to examine the contributions of

entrepreneurs, a broader definition is adopted which relates social entrepreneurship to individuals or organizations engaged in entrepreneurial activities with a social goal. (Certo & Miller et al. 2008, cited by Mitra & Borza, 2011)

In this paper, there is no attempt to distinguish the social entrepreneur from the commercial entrepreneur, since the different labels do not imply greatly different contributions. The difference is more about the motive or individual objective, rather than their contributions. (In fact, many perceived social entrepreneurs do not realize or agree they are in this category by themselves.) Thus, the contributions to be examined are within the broader range of entrepreneurs including both of the two categories.

Based on recent academic studies and research, there are four main indicators commonly used to analyze how entrepreneurs make contributions to the economy, employment, innovation, productivity/growth and utility.

To Employment

Firstly, companies contribute to the amount of employment generated, in which not only the quantity, but also the quality is to be seriously considered. By quality, it refers to aspects of employee's remuneration, in forms of salaries and other benefits; and also their job satisfaction levels.

According to many studies, entrepreneurial companies have been making a significant contribution to the creation of jobs, which is disproportionately high compared to larger, established companies. According to Fritsch (1997), " a region characterized by a higher start-up rate is associated with higher

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employment increase” (cited by Praag and Versloot, 2008). Fölster (2000) also claims a similar positive correlation for Sweden.

However, recent studies have begun to examine both the direct and indirect effects of entrepreneurial companies on employment. New start-ups create new jobs, whereas some other companies in the market are facing more competition and may be forced to enter administration or reduce jobs to cut costs, thus causing more people to be out of employment. Mueller et al. (2008) analyzed start-up rates and the regional employment changes in British regions, showing that “ higher start-up rates are associated with higher immediate levels of employment ...

However, after some years the relationship with employment growth is negative due to the competitive pressure that leads (inefficient) incumbents to shed labor or exit the market.” But “ in the longer run, the net effect is positive due to increased competitiveness”. (Praag and Versloot, 2008) Studies in different countries find evidences for the same pattern as well. In this pattern, there is another indirect effect of entrepreneurs’ entries, the entry of new businesses and the exit of the failed ones might lead to improved market competitiveness and economic growth.

Though studies show smaller and younger companies tend to have higher net employment growth (Baldwin and Picot, 1995; Broersma and Gautier, 1997; Picot and Dupuy, 1998, cited by Praag and Versloot, 2008), they may also have rather volatile growth rates over time, while their counterparts, the large companies tend to grow more steadily. According to the observation of Burgess et al. (2000), if both a small and large company create one job, the

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large company is more likely to create additional jobs in the following period. Because of the fragility of the young and small companies, they tend to have higher job destruction rates as well. Hence, as for employment dynamics (security), entrepreneurial companies seem not as good as large ones.

Meanwhile, not only the number of new employees, but also the quality of the positions should be examined, which could be approached from the aspects of salaries, other remunerations and job satisfaction levels of employees.

A great number of studies all reach a similar conclusion: Smaller and younger companies pay their employees lower salaries. Also, it seems that entrepreneurs are less likely to offer other forms of benefits. For example, Wunnava and Ewing (2000) find out in the data of 3625 U. S. individuals the probability to receive medical insurance, life insurance, maternity leave and retirement benefits increases with company size. The reason for this could be that entrepreneurs tend to employ individuals with lower levels of skills, education or experience. Even so, some study show results (but to certain ambiguous extent) that employees in entrepreneurial companies have higher job satisfaction levels (Frey and Benz, 2003).

Therefore, entrepreneurs have a great contribution to the generation of employment, but the quality of that employment might not be as good as other large companies.

To Innovation

Entrepreneurs' activities are considered to contribute directly to the value creation through innovations and indirectly to the stimulation of the level of innovation in society.

Actually, according to studies, "small and young firms produce fewer new products and/or technologies However, entrepreneurs produce more innovations per individual employed" (Praag and Versloot, 2008). Also, entrepreneurs produce the same or even higher quality innovations.

Meanwhile, they are found to destroy more value if adopting unsuccessful strategies in the process of commercializing the innovations, which shows costs of the frustrations or failures of entrepreneurial activities.

In a broader view, entrepreneurs could contribute to the innovation levels of their countries and societies. For example, studies show the correlation between the extent of entrepreneurial activity in a country and a country's innovative capacity is positive for more developed regions like the U. S. and Europe (Wennekers et al., 2005). Hence, entrepreneur's activities not only create a large number of high quality new products and technologies, but also inspire their societies in certain way.

To Productivity and Growth

In terms of labor productivity, many results seem to show that entrepreneurs have no higher or lower levels of productivity than large companies. In many cases, the gap could be obviously big. However, the growth of entrepreneurs' production value and labor productivity tend to be higher. For example, Brouwer et al. (2005) and Rodríguez et al. (2003) all provide

support from their studies for that smaller companies have higher value added growth and higher productivity growth. Generally, entrepreneurs may fall behind somehow in terms of productivity, but they have higher growth, they are catching up quickly.

To Utility

The fourth type of contribution to be considered is the role of entrepreneurship in increasing individuals' utility levels. It can be examined from the aspects of any form of remuneration, i. e., expected incomes, remuneration inequality and volatility, job satisfaction.

According to studies and analysis, entrepreneurs tend to have lower incomes, which are more volatile and less secure, but entrepreneurs are more satisfied with both their jobs and their lives.(Praag and Versloot, 2008) Though entrepreneurs would earn more as wage employees, they are actually more satisfied than wage-workers, one main reason could be that entrepreneurs have more interest in their jobs and more autonomy. Therefore, it could be interpreted that these results provide some positive evidence that entrepreneurs have higher utility.

These contributions are mainly discussed as in the category of economy, but surely the contributions are of social significance in the meantime, especially in aspects relating to employment, innovation and individuals' utility. As Venkataraman(1997) stated, the creation of social wealth could be seen as a by-product of economic value created by entrepreneurs. However, among the entrepreneurs, some of them shift their focus from economic benefits to

the social needs. The study and research on social entrepreneurs strongly indicate this new trend and the great contributions of them.

As we mentioned before, social entrepreneurs are not uniformly defined, and there is overlapping between commercial entrepreneurs and social entrepreneurs. However, in this paper, there will be no attempt to clearly distinguish, but to simply discuss social contributions from them. The reference of social entrepreneurs is being a symbolic illustration of the significant social contributions made through entrepreneurial activities.

Whether an entrepreneur has more of a profit motive or a primary motive for social value creation, he or she can create social value in both cases. For example, the Grameen Bank in Bangladesh. Muhammad Yunus, an economics professor, founded the Grameen Bank in 1976 to supply credit to those who would not qualify as customers of established banks.

Today, Grameen operates 1191 branches, serving over 3 million poor people in 43, 459 villages in Bangladesh. Grameen Bank grants unsecured loans to the poor in rural Bangladesh. Recently that Grameen is so profitable that he can now also fund many other social projects. (Seelos and Mair, 2005) These profits may as well attract entrepreneurs who do not have much social motive. But they may still create significant social value by doing so.

Meanwhile, this example shows such entrepreneurial activities have greatly positive effects in both economic and social outcomes.

Social entrepreneurs may stimulate more socially accepted and sustainable business strategies and organizational forms. Entrepreneurs recognize what

others miss out and take the opportunities to improve systems, create solutions and invent new approaches. Some entrepreneurs focus on the social purposes instead of or more than economic profits, thus they can be also be defined as social entrepreneurs.

“ Social entrepreneurs can be found in ... profit-seeking businesses that have some commitment to doing good and helping society and the environment with their strategies and financial donations”. (Thompson, 2002) By this means, these entrepreneurs are devoted to achieving the balance between the pursuit of financial and social benefits, shaping their businesses with more social responsibilities.

Entrepreneurs and Sustainable Development

Awareness about the need to transform the way society consumes natural resources is growing. Within this context, entrepreneurs are considered to be the possible contributors to bring about a transformation to sustainable products and processes. Currently, sustainability has already become a popularly adopted strategy and objective. Most large firms now have explicit public sustainability policy statements and claim to apply a “ triple bottom line” that considers a firm’s financial, environmental, and social performance (Elkington, 1998, cited by Hall, Daneke and Lenox, 2010).

All manners of waste reduction and resource substitution are rewarded and promoted. Similarly entrepreneurs are also influenced by the pursuit of sustainable development. Among academic scholars, certain literature offers considerable insights into how sustainable development may be achieved.

For example, Baumol's (1990) framework of entrepreneurial typologies (productive, unproductive and destructive) has been aligned with the social and environmental impacts of business (e. g., Hall et al., 2008; Potocan and Mulej, 2003, cited by Hall, Daneke and Lenox, 2010). Inevitably, sustainable development would be a concern of each new entrepreneur.

One good example can be the Body Shop International Plc., a brand which is worldwide popular and successfully promoted their values as loving the nature. The body shop insists on their " five core Values: Support Community Fair Trade, Defend Human Rights, Against Animal Testing, Activate Self-Esteem, and Protect Our Planet" (the body shop official website).

Keeping the commitment through their production (i. e. seeking and sustaining natural materials and ingredients) and business operation, the Body Shop International Plc. shows an entrepreneur/company should and could make great contributions to sustainable development and other social responsibilities. " The business of business should not just be about money, it should be about responsibility. It should be about public good, not private greed." (cited in the official website) from Dame Anita Roddick, who is human rights activist, founder of Body Shop International Plc.

Recently public attention has changed, and government actions to promote CSR (corporate social responsibility) have shifted the focus from exclusively on large companies to the majority group of SMEs, which surely include many entrepreneurial companies. In fact, shown in many related studies, most of the SMEs (Small and Medium Enterprises) or entrepreneurial companies identified the following as hot issues in business ethics: damaging

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the environment, accepting corporate gifts and falsifying invoices; also most of them claim to implement external or internal CSR activities. (see Conill, et al., 1997, research by Deusto University, cited by Murillo and Lozano, 2006).

Through the implementations of CSR, most companies are making contributions to society on various levels. There could be certain reason for that entrepreneurs tend to have better motives for CSR practices, that is, entrepreneurial companies or SMEs, “ due to their particular dependency on the network of interpersonal relationships that determine how they function - should be especially interested in investing in social capital’ (Spencer, et al., 2003).

Conclusion

Based on the research and discussion, it is obvious that entrepreneurs play a significant role in the contexts of both economy and society. They make a large amount of significant contributions to both economy and society, through generating employment, creating and inspiring innovation, promoting productivity growth and individuals’ utility.

But it should also be acknowledged that there are certain costs in the meantime, either from the failures or inappropriate running of entrepreneurs, i. e. destroying more value if adopting unsuccessful strategies in commercializing innovations, or from the more intense competition and reshuffle of the market, for example in a medium run the negative effect entrepreneurial companies have on employment (which still has positive effect in the longer run). Also it should be realized that

compared with large and mature companies, entrepreneurial companies have certain weaker points, for example in terms of the quality of the employment they generate.

The creation of the concept of social entrepreneur indicates the great potential or existing contributions specifically to certain social needs. Besides the social benefits produced by entrepreneurs' businesses activities, there are many entrepreneurs taking social issues and responsibilities in priority.

They help to solve or alleviate social problems, including poverty, environment issues, and public health and so on, directly or indirectly through their businesses. Entrepreneurs have an expected potential to realize or boost sustainable development. Also the promotion of CSR shows that society and public place higher expectations of social responsibilities on all businesses, whether they are entrepreneurs or not, or whichever kind of entrepreneurs they are.

Hence, as the awareness of social needs is growing, all the entrepreneurs are required to carry on higher expectations of social responsibilities, besides their profit-seeking economic activities. The pursuit of both commercial profits and social contributions should be the objective of their business activities. Generally entrepreneurs seem to have increasingly more of the 'social' featuring.

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