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## Role of Entrepreneur in Economic Development of India

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### INTRODUCTION

The word entrepreneurship has its origin in French Language which refers to organizers of musical or other entertainment. An entrepreneur is a person engages in entrepreneurial activities before the firm is established and then becomes an owner after he firm is established. In his theory of economic development, David Ricardo identified only three factors of production, namely, machinery, capital and labour, among whom the entire produce is distributed as rent, profit and wages respectively. Ricardo appreciated the virtues of profit in capital accumulation. According to him, profit leads to saving of wealth which ultimately goes to capital formation.

Thus, in both the classical theories of economic development, there is no room for entrepreneurship. And, economic development seems to be automatic and self-regulated. Thus, the attitude of classical economists was very cold towards the role of entrepreneurship in economic development. The economic history of the presently developed countries, for example, America, Russia and Japan tends to support the fact that the economy is an effect for which entrepreneurship is the cause.

The crucial role played by the entrepreneurs in the development of the Western countries has made the people of underdeveloped countries too much conscious of the significance of entrepreneurship for economic development. Now, people have begun to realize that for achieving the goal of economic development, it is necessary to increase entrepreneurship both qualitatively and quantitatively in the country. It is only active and enthusiastic entrepreneurs who fully explore the potentialities of the country's available resources – labour, technology and capital. Schumpeter (1934) visualised the entrepreneur as the key figure in economic development because of his role in introducing innovations. Parson and Smelser (1956) described entrepreneurship as one of the two necessary conditions for economic development, the other being the increased output of capital. Harbison (1965) includes entrepreneurs among the prime movers of innovations, and Sayigh (1962) simply describes entrepreneurship as a

necessary dynamic force. It is also opined that development does not occur spontaneously as a natural consequence when economic conditions are in some sense 'right': a catalyst or agent is always needed, and this requires an entrepreneurial ability.

The role of entrepreneurship in economic development varies from economy to economy depending upon its material resources, industrial climate and the responsiveness of the political system to the entrepreneurial function. The entrepreneurs contribute more in favourable opportunity conditions than in the economies with relatively less favourable opportunity conditions. Viewed from the opportunity conditions point of view, the underdeveloped regions, due to the paucity of funds, lack of skilled labour and non-existence of minimum social and economic overheads, are less conducive to the emergence particularly of innovative entrepreneurs.

#### **OBJECTIVE OF THE STUDY:**

- \* To study the economic development strategies.
- \* To explore the impact of entrepreneurship in economic development of India.

#### **INDIA'S STRATEGY OF ECONOMIC DEVELOPMENT**

India's economic development strategy immediately after Independence was based primarily on the investment goods industries sector, with secondary importance accorded to the services and household goods sector (Nayar, 2001). The strategy was to give strong emphasis on mining and manufacturing and infrastructural development. Any increase in planned investments in India required a higher level of savings than existed in the country. So the Indian government implemented a progressive tax system not only to generate the higher levels of savings but also to restrict increases in income and wealth inequalities. Thus the strategy of economic development in India includes - Direct participation of the government in economic activities such as production and selling and regulation of private sector economic activities through a controlled system. In addition, the Indian economy was protected from foreign competition by imposing various restrictions. As a result, India became a relatively closed economy, permitting only limited economic transactions with other countries. Due to government intervention, particularly the high levels of government subsidies, it was clear by

1990 that India was living beyond its means. The result was a severe payments crisis. To meet its immediate balance of payments crisis, India also entered into a structural loan adjustment agreement with the International Monetary Fund (IMF). But to fulfil the conditions of IMF the government of India undertook a package of economic reforms since 1991.

### **EFFECT OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT OF INDIA:**

Drucker describes the entrepreneur is a person who is willing to risk his capital and other resources in new business venture, from which he expects substantial rewards if not immediately, then in the foreseeable future. Entrepreneurship is basically concerned with creating wealth through production of goods and services. This results in a process of upward change whereby the real per capita income of country rises overtime.

\* **Capital Formation:** Entrepreneurs by placing profitable business proposition attract investment to ensure private participation in the industrialization process. Entrepreneurs promote capital formation by mobilizing the idle savings of public. They put their own as well as borrowed fund for establishing their units. This type of work leads to value addition and creation of wealth, which is very essential for the industrial and economic development of the country.

\* **Generate Employment:** Entrepreneurs are job creators and job providers. In this new era of globalisation and new economic order the entrepreneurs and their enterprises are the only hope and source of direct and indirect employment generation. With the setting up of more and more units by entrepreneurs, both on small and large-scale numerous job opportunities are created for others.

\* **Improve Standard of Living of People:** Initiatives taken by entrepreneurs through employment generation leads to increase in income and purchasing power of people. The enhanced purchasing power leads to increase in demand for goods and services which leads to boost up industrial activity as well as income of the newly employed people.

\* **Wealth Creation and Distribution:** It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas, thus giving benefit to

larger sections of the society. Entrepreneurial activities also generate more activities and give a multiplier effect in the economy.

**Increasing Gross National Product and Per Capita Income:** Entrepreneurs convert the latent and idle resources like land, labour, and capital into goods and services resulting in increase in the national income and wealth of a nation. The increase in national income is the indication of increase in net national product and per capita income of the country. Entrepreneurs are always on looking out for opportunities. They explore and exploit opportunities, encourage effective resource mobilization of capital and skill, bring in new products and services and develop markets for growth of the economy. In this way, they help increasing gross national product as well as per capita income of the people in a country.

**Promotes Country's Export Trade:** Entrepreneurs help in promoting a country's export-trade, which is an important ingredient of economic development. They produce goods and services in large scale for the purpose earning huge amount of foreign exchange from export in order to fulfil the import dues requirement.

## CHALLENGES FOR ENTREPRENEURSHIP DEVELOPMENT IN INDIA

Today's knowledge based economy is fertile ground for entrepreneurs, in India. It is rightly believed that India has an extraordinary talent pool with virtually limitless potential to become entrepreneurs. Therefore, it is important to get committed to creating the right environment to develop successful entrepreneurs. To achieve this, India must focus on four areas.

1. Create the Right Environment for Success: Entrepreneurs should find it easy to start a business. To do so, most Indians would start slow with capital borrowed from family and friends, the CEO playing the role of salesman and strategist, a professional team assembled months or perhaps years after the business was created, and few, if any, external partners. Compare this with a start-up in Silicon Valley: a Venture Capitalist (VC) or angel investor would be brought in early on; a professional management team would drive the business; a multifunctional team would be assembled quickly; and partnerships would be explored early on to scale up the business. A major challenge for India is to create a handful of areas of excellence- the breeding ground where ideas grow into businesses. For example, Gurgaon and Hyderabad for remote

services, or Bangalore for IT. One way of strengthening these areas is to consider the role of universities and educational institutions-places where excellence typically thrives.

2. Ensure that Entrepreneurs have access to the Right Skill: A survey conducted by McKinsey & Company last year revealed that most Indian start-up businesses face two skill gaps: entrepreneurial (how to manage business risks, build a team, identify and get funding) and functional (product development know-how, marketing skills, etc.) India can move toward ensuring that the curriculum at universities is modified to address today's changing business landscape, particularly in emerging markets, and to build 'centres of entrepreneurial excellence' in institutes that will actively assist entrepreneurs.

3. Ensure that Entrepreneurs have access to 'Smart Capital': For a long time, Indian entrepreneurs have had little access to capital. It is true that in the last few years, several Venture Funds have entered the Indian Market. And, while the sector is still in infancy in India (with estimated total disbursement of less than US\$0.5 billion in the year 2003), VCs are providing capital as well as critical knowledge and access to potential partners, suppliers, and clients across the globe. However, India has only a few angel investors who support the idea in the early stages before VCs become involved. While associations such as TIE are seeking to bridge the gap by working at creating a TIE India Angel Forum, this is India's third challenge creating a global support network of 'angels' willing to support young business.

4. Enable Networking and Exchange: Entrepreneurs learn from experience-theirs and that of others. The rapid pace of globalization and fast growth of Asian economies present tremendous opportunities and challenges for India. Through planning and focus, India can aspire to create a pool of entrepreneurs who will be the region's –and the world's–leaders of tomorrow.

#### **CONCLUSION:**

The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important input in the economic development of a country. The entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. Entrepreneur can change the way we live and work. If successful, their innovations may improve our standard of living. In short in

addition to creating wealth from their entrepreneurial ventures they also create jobs and conditions for a prosperous society.

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