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Entrepreneurship, Government and their Roles

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ABSTRACT

Entrepreneurship is important, as it has the ability to improve standards of living and create wealth, not only for the entrepreneurs but also for related businesses. Entrepreneurs also help drive change with innovation, where new and improved products enable new markets to be developed. Helping small businesses start and thrive is a win-win situation for the government. Local businesses help support the tax base through business taxes and through the wages provided to employees. The possibility of workforce expansion and economic growth prompts municipalities, counties, states and the federal government to offer various forms of assistance, such as grants, research opportunities, beneficial legislation and worker training programs. To find out what services are available in your area, contact your state and local economic development offices and ask about business incentives in your area.
Keywords: Entrepreneurs, government, business and support

INTRODUCTION

Entrepreneurs and entrepreneurship have been there since the evolution of civilization [1]. The motive of businesses has not only been making money but serving mankind too. They adopt all the available resources around and invest them in innovations. The success or failure of a business may take a backseat, while the idea of starting an enterprise is still the main concern for many potential entrepreneurs. However, the government has a major role to play to promote entrepreneurial ideas [2,3,4]. G20 Summit 2014 leaders raised the demand to enhance economic development by promoting entrepreneurship and innovation to eradicate unemployment amongst the youth through "Encouragement of Entrepreneurship" [5]. The government has been coming up with several startup schemes and funds to promote the growth of startups in the country [6].

ENTREPRENEURS SPUR ECONOMIC GROWTH

New products and services created by entrepreneurs can produce a cascading effect, where they stimulate related businesses or sectors that need to support the new venture, furthering economic development [7,8]. For example, a few information technology companies made up the IT industry in India during the 1990s. The industry quickly expanded and many other sectors benefited from it. Businesses in associated industries such as call center operations, network maintenance companies, and hardware providers [9]. Education and training institutes nurtured a new class of IT workers who were offered better, high-paying jobs. Similarly, future development efforts in other countries require robust logistics support, capital investments, and a qualified workforce. From the highly qualified programmer to the construction worker, entrepreneurship benefits a large part of the economy. In the U.S. alone, small businesses created 1.6 million net jobs in 2019 [10].

ENTREPRENEURS ADD TO NATIONAL INCOME

Entrepreneurial ventures help generate new wealth. Existing businesses may remain confined to existing markets and may hit a limit 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 [11]. Additionally, increased employment and higher earnings contribute to better national income in the form of higher tax revenue and higher government spending. This revenue can be used by the government to invest in other struggling sectors and human capital. Although it may make a few existing players redundant, the government can soften the blow by redirecting surplus wealth to retrain workers [12]. According to the U.S. Small Business Administration, there are 31.7 million small businesses in the U.S. in 2019.

ENTREPRENEURS CREATE SOCIAL CHANGE

Through offering unique goods and services, entrepreneurs break away from tradition and reduce dependence on obsolete systems and technologies. This can result in an improved quality of life, improved morale, and greater economic freedom. For example, the water supply in a water-scarce region will, at times, force people to stop working to collect water. This will impact their business, productivity, and income [8]. However, with a project such as the U.S. Agency for International Development's Kenya RAPID program, an innovative and automatic pump powered by smart sensors fills people's water containers automatically, ensuring more than 184,000 people now have improved access to clean and safe drinking water. This type of innovation ensures people are able to focus on their jobs without worrying about a basic necessity like water. More time to devote to work translates to economic growth [13].

Moreover, the globalization of technology means entrepreneurs in developing countries have access to the same tools as their counterparts in developed countries. They also have the advantage of a lower cost of living, so a young entrepreneur from a developing country can compete with a multimillion-dollar existing product from a developed country [14].

COMMUNITY DEVELOPMENT

Entrepreneurs regularly nurture ventures by other like-minded individuals. They also invest in community projects and provide financial support to local charities. This enables further development beyond their own ventures. Some famous entrepreneurs, such as Bill Gates, have used their money to finance good causes, from education to public health.The qualities that make one an entrepreneur can be the same qualities that help motivate entrepreneurs to pay it forward through philanthropy, in a later chapter of life [15].

IS ALL ENTREPRENEURSHIP GOOD?

Are there any drawbacks to cultivating entrepreneurs and entrepreneurship? Is there a limit to the number of entrepreneurs a society can hold? Assistant Professor of Business at Columbia Business School Tania Babina, in a report written alongside Assistant Professors Wenting Ma and Christian Moser, Associate Professor Paige Ouimet, and Assistant Director of the Board of Governors of the Federal Reserve System Rebecca Zarutskie, found that "employees at young firms receive lower earnings as compared to employees at older firms. Italy may provide an example of a place where high levels of self-employment have proved to be inefficient for economic development. Research has shown that Italy has experienced large negative impacts on the growth of its economy because of self-employment. There may be truth in the old saying, "too many chefs and not enough cooks spoil the soup [7,8.9]. The final communique of the 2014 G20 Leaders' Summit called for enhanced economic growth that could be achieved by the "promotion of competition, entrepreneurship and innovation". There was also a call for strategies to reduce unemployment, particularly amongst youth, through the "encouragement of entrepreneurship". This desire to stimulate economic and job growth via the application of entrepreneurship and innovation has been a common theme in government policy since at least the 1970s. The origins of this interest can be traced back to the report produced by Professor David Birch of MIT "The Job Generation Process" that was published in 1979. A key finding from this work was that job creation in the United States was not coming from large companies, but small independently owned businesses. It recommended that government policy should target indirect rather than direct strategies with a greater focus on the role of small firms.

FOSTERING THE GROWTH OF ENTREPRENEURIAL ECOSYSTEMS

Over the past 35 years the level of government interest in entrepreneurship and small business development as potential solutions to flagging economic growth and rising unemployment has increased. It helped to spawn a new field of academic study and research [3,5]. This trend was boosted by the success the iconic "technopreneurs". Technology entrepreneurs such as Steve Jobs of Apple, Bill Gates of Microsoft, Jeff

Bezos of Amazon, or Larry Page and Sergey Brin of Google have become the "poster children" of the entrepreneurship movement [6]. One of the best known centres of high-tech entrepreneurial activity has been California's Silicon Valley. Although it is not the only place in which innovation and enterprise have flourished, it has served as a role model for many governments seeking to stimulate economic growth [9].
Today "science" or "technology" parks can be found scattered around the world. They usually follow a similar format, with universities and R&D centres co-located with the park, and venture financiers hovering nearby looking for deals. Most have been supported by government policy. What governments want is to replicate Silicon Valley and the formation and growth of what have been described as "entrepreneurial ecosystems". However, despite significant investments by governments into such initiatives, their overall success rate is mixed [10].

ENTREPRENEURIAL ECOSYSTEM

The concept of the entrepreneurial ecosystem" can be traced back to the study of industry clustering and the development of National Innovation Systems that took place in the 1990s. However, the term was being used by management writers during the 2000s to describe the conditions that helped to bring people together and foster economic prosperity and wealth creation [6].
In 2010 Professor Daniel Isenberg from Babson College published an article in the Harvard Business Review that helped to boost the awareness of the concept. The diagram below shows the nine major elements that are considered important to the generation of an entrepreneurial ecosystem. The focus of this first SEAANZ White Paper is on the role of government policy. Future White Papers will deal with the other eight elements.

ENTREPRENEURIAL ECOSYSTEM

The first prescription was to stop emulating Silicon Valley. Despite its success the Valley was formed by a unique set of circumstances and any attempt to replicate it in other places were unlikely to succeed. This led to a second prescription, which was to build the ecosystem on local conditions. Grow existing industries and build on their foundations, skills and capabilities rather than attempting to launch high-tech industries from scratch [5]. The third prescription was the importance of engaging the private sector from the start. Here the role of government is indirect and one of a facilitator not a manager. In trying to shape the growth of such ecosystems attention should be given to the support of firms with high growth potential that can help to generate a "big win" early on. This is the opportunity for local success stories to become role models for others [7]. However, care must be taken by governments not to try to pick winners or over engineer the system. High growth firms by nature are inherently risky and highly innovative firms are typically unique. As such there is no magic formula for their success. Helping such firms to succeed is more about removing obstacles to their growth such as anti-competitive cultures, unfair taxation on small firms, unnecessary "red tape" or lack of access to markets, skilled employees or investment capital. In seeking to help stimulate entrepreneurial high growth firms it is important, according to Isenberg, to avoid flooding the system with too much "easy money". This can take the form of government grants and venture capital funds that are too easily obtained. What is important is to grow firms with strong root systems that can sustain their own growth as much as possible before seeking additional funding. Such firms should be financially sound; profitable and well managed, or their likely success rates will be low. The focus should be on encouraging sustainable, growth oriented and innovative firms not simply fostering more start-ups. Starting a new business is the easy part, successfully growing it is the challenge.

ROLES OF GOVERNMENT IN STIMULATING ENTREPRENEURIAL ECOSYSTEMS?

The challenge for government policy is to develop policies that work, but avoid the temptation to try to effect change via direct intervention. A 2014 study of entrepreneurial ecosystems undertaken by Colin Mason from the University of Glasgow and Ross Brown from the University of St Andrews for the OECD, developed a set of general principles for government policy in the relation to these ecosystems [2].They contrast "traditional" versus "growth-oriented" policy approaches to enterprise development. The first of these approaches tends to focus on trying to grow the total number of firms via business start-up programs, venture capital financing and investment in R&D or technology transfer.

This is a "pick the winner model" and can also include business or technology incubators, grants, tax incentives and support programs. Such programs are essentially transactional in nature. It is not that they are of no value, but they cannot guarantee success via such direct intervention. A "growth oriented" approach is more relational in nature. This focuses on the entrepreneurial leadership of these growth firms. It seeks to understand their networks and how to foster the expansion of such networks at the local, national and international level. The most important thing is the strategic intent of the team running the business. Firms seeking to grow need to be given help in linking up with customers, suppliers and other "actors" within the ecosystem who can provide resources.Government ministers can play a critical role in fostering enterprise and innovation. Their role is to direct the government departments and agencies to focus on the problem and develop effective policies.A minister who has a good understanding of what entrepreneurial ecosystems are, how they form and the role and limitations of government policy is well-placed to generate more effective outcomes. In summary, key recommendations for government policy in the fostering of entrepreneurial ecosystems are:

i. Make the formation of entrepreneurial activity a government priority – The formulation of effective policy for entrepreneurial ecosystems requires the active involvement of Government Ministers working with senior public servants who act as 'institutional entrepreneurs' to shape and empower policies and programs [3].
ii. Ensure that government policy is broadly focused – Policy should be developed that is holistic and encompasses all components of the ecosystem rather than seeking to 'cherry pick' areas of special interest.
iii. Allow for natural growth not top-down solutions – Build from existing industries that have formed naturally within the region or country rather than seeking to generate new industries from green field sites.
iv. Ensure all industry sectors are considered not just high-tech – Encourage growth across all industry sectors including low, mid and high-tech firms.
v. Provide leadership but delegate responsibility and ownership – Adopt a 'top-down' and 'bottom-up' approach devolving responsibility to local and regional authorities.

vi. Develop policy that addresses the needs of both the business and its management team – Recognise that small business policy is 'transactional' while entrepreneurship policy is 'relational' in nature.

ROLES OF GOVERNMENT IN PROMOTING SMALL BUSINESS

Economic Development Programs

Some government programs help businesses start, grow and relocate to specific areas. In some ways, local, county and state governments compete with each other for jobs. They do this by offering start-up incentives and taking steps to create a "business-friendly" environment. These steps include tax credits, worker training, free land, zoning changes, low-interest loans, infrastructure improvements and help with fast-tracking licensing and permitting [3].

Loan Guarantee Programs

Government agencies such as the U.S. Small Business Administration provide loan guarantees to small businesses and encourage local banks to work with start-ups or established companies that want to expand. Talk to your banker about state or federal loan programs that offer low interest rates. If you are a woman, minority or operate a business in select industries, additional loan opportunities also may be available. Contact your state's economic development office to learn if it has loan programs [1].

Research and Development

The federal government provides grants to academic institutions working to develop new technologies that will benefit industry with the caveat that the institutions share the technologies with industry. In some instances, the government provides grants to private companies making a new product or service that will improve a vital area of an economy, such as transportation, energy, agriculture or communications. Some states also fund research and development projects and work with private investors and the federal government to raise funds [4].

Infrastructure Improvement Funding

Business does better when it can move raw materials to factories efficiently and get finished goods to plants and markets quickly. Governments help improve the infrastructure needed for businesses to succeed. This includes building and maintaining roads, bridges, rail lines, airports, seaports, energy transmission lines and telecommunications systems [4].

Education and Training Programs

To ensure businesses have access to trained workers, governments provide free schooling for primary and secondary students, grants and loans for higher education and worker training programs. Governments often work with trade schools, community colleges and universities to provide free worker training [8].

CONCLUSION

Entrepreneurship is the capacity and willingness to develop and participate in a business venture with the intention of making a profit regardless of the financial risks involved. The role of entrepreneurship in any economy is critical, as it contributes to the socio-economic development of societies in various ways, including Identifying existing opportunities in the market.

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