GROUP ASSIGNMENT: GROUP ASSIGNMENT

MODULE NAME: Entrepreneurship

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Commented [A1]: Good assignment, but it lacks that something extra to make it good. Refer to my comments.
70%
I am satisfied.

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Declaration of own work:

We declare that this assignment is our own work and that we have cited the sources from which we completed the assignment.

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1 INTRODUCTION

Critically analyse the contribution of entrepreneurs to economic development, job creation and the creation of wealth in the world, Africa and Southern Africa.

This question reminds of the famous chicken and egg debate, which came first, the chicken or the egg? Is it entrepreneurship that influences economic development and job creation, or is it the other way around?

To answer this question, we first need to look at different concepts. We will discuss the concept of economic development and growth and entrepreneurship. After that, we will discuss the relationship between entrepreneurship, economic development, job creation and the creation of wealth.

Commented [A2]: Good introduction. Concise.

2 LITERATURE REVIEW AND DISCUSSIONS

2.1 Definition and discussion of economic development and growth

Economic development can be described as a country's increase in living standards and wealth and is generally measured by the increase of the gross domestic product (GDP).

GDP is the economic indicator used to measure the health of the economy and is measured by adding up all earnings or all expenditure during the year. When the GDP increases, it indicates economic growth (Pettinger, 2018). Thus, to increase economic growth, a rise in aggregate demand (A.D.) or aggregate supply (AS) needs to be present. Aggregate demand refers to consumer spending, while aggregate supply refers to productive capacity.

Commented [A3]: Nou verstaan ek dit ook. Hahaha!!!!

The increase of aggregate demand, in laymen's terms, can be explained as, the more money consumers have, the more they can spend. A.D. can be increased by, for instance, the increase of wages, lower interest rates and job creation. All of which puts money in the pockets of the consumer.

Aggregate supply can be increased by the development of new technology, improved skills and education, and improved ways of management that will increase production. The increase in production can also lead to job creation, which in turn again puts money in the pocket of the consumer and increases A.D. The effect can be seen in Figure 2.1.

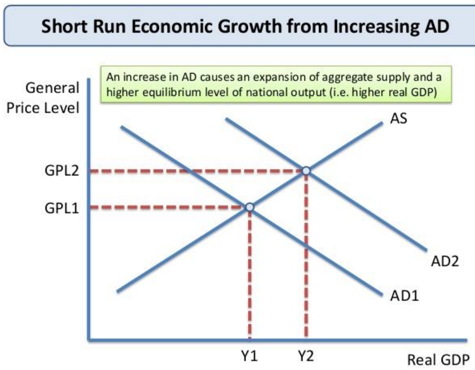

Figure 2-1: The effect of the increase of A.D. and AS on the GDP

In their research, Stoica, Roman and Rusu discuss the influence of entrepreneurship on economic growth. They found that neo-classical studies determined that the main factors related to economic growth are an investment in physical labour and capital. At the same time, knowledge is added by the endogenous growth theory (Stoica *et al.*, 2020). Researchers added entrepreneurship as an essential driver to the neo-classical model, because entrepreneurship contributes to job creation and innovation, as well as stimulates competitiveness.

In the discussion above it is clear that the factors like new products, job creation, generation of wealth, improvement of status and development of the community, that influence the economy positively are the same attributes that entrepreneurship contribute. In the next chapter, we will discuss the concept and contribution of entrepreneurship in more detail.

2.2 The concept of entrepreneurship

Entrepreneurship can be described as the "creation of new business", a collection of individuals working together and putting in efforts to "generate new value-added economic activity" (Dau & Cuervo-Cazurra, 2014).

Spinelli and Adams identified four entrepreneurial transformations that are changing the world (Spinelli & Adams, 2016). This transformations, according to them have a significant impact on the way the world "lives, works, learns and enjoys leisure." The transformations that they refer to are:

1. A new management paradigm: Management now focuses more on entrepreneurial thinking and reasoning.
2. A new education paradigm: Entrepreneurship has changed the way learning and teaching are viewed.
3. A dominant management model: Social ventures and non-profit businesses are dominantly using entrepreneurial management.
4. The transcending of business schools: Entrepreneurship now forms part of the curricula of most business schools.

Kritikos distinguishes between "innovative entrepreneurs" that introduce new products, services, techniques or business structures to the market, and "replicative entrepreneurs" who use unique selling propositions in existing markets (Kritikos, 2014).

Commented [A4]: Noted.

2.3 Entrepreneurship and economic development

2.3.1 How does entrepreneurship contribute to economic growth?

In 1999 the National Commission on Entrepreneurship was established and created more awareness and understanding of the contribution and the potential of the entrepreneurial economy. David Birch found in his research that 81.5% of new jobs are created by "new and growing smaller firms" (Spinelli & Adams, 2016). While one out of four employees worked for a fortune 500 company earlier, by 2010 this percentage was only 9%. Job creation is one of the significant contributions of entrepreneurship.

New venture creation is a classic entrepreneurial attribute. It is a significant element in the creation of economic and social mobility as it enables all people, no matter their race, social class or gender, to realise their dreams. Entrepreneurs are innovative and develop new products or services which contributes to value generation in the economy. Their new business and products again increase competition and contribute to job creation and the increase of productivity.

Carree and Thurik discussed the framework in Figure 2.2, that links entrepreneurship to economic growth (Carree & Thurik, 2010). They distinguish between three levels of analysis, linking the individual level to the firm and macro level, as they believe this is necessary when linking entrepreneurship to economic growth. According to them, entrepreneurial action appears at the firm level. Small firms are used as a vehicle for entrepreneurs to reach their personal qualities and ambitions. These small firms introduce something new to the market, which creates variety and competition and eventually, the selection of the most viable firm. The competition takes place continuously, and together with variety and selection, promotes economic growth.

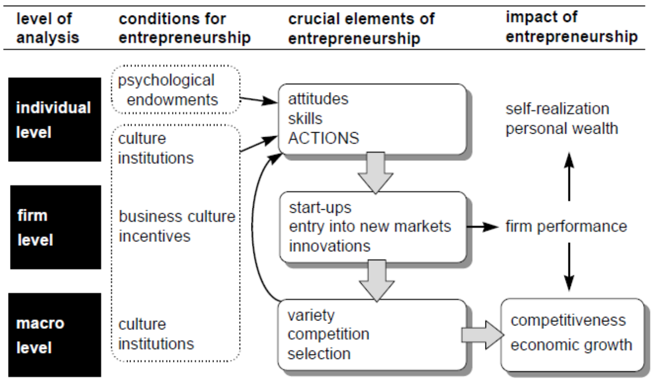

Figure 2-2: Framework for linking entrepreneurship to economic growth (Carree & Thurik, 2010)

New products or services provided by entrepreneurs are essential to the economy for several reasons:

- Entrepreneurs positively influence the growth of the economy with the introduction of new products.
- New products or services provided by entrepreneurs create new markets as well as employment opportunities.
- The social change brought on by entrepreneurship leads to the improvement of the quality of living as well as economic freedom, as well as the development of communities.

Commented [A5]: Good points.

2.3.2 The influence of the economy on entrepreneurship

In their article, Willis, Hughes, Boys and Swindall discuss economic growth through entrepreneurship (Willis *et al.*, 2020). They found that the phases of business cycles have an influence on the start of individual entrepreneurs and refer to those as "necessity or opportunity" entrepreneurs. Necessity entrepreneurs are forced by high unemployment rates to resort to self-employment, like the circumstances in developing countries. Opportunity entrepreneurs are not necessarily forced by circumstances, but identifies an opportunity in the market to earn an extra income. Opportunity entrepreneurs are more often successful in developed countries.

When a country's economy is healthy, and unemployment rates are low, there is no pressure to encourage entrepreneurial development, and existing companies do not see the need to investigate options to improve their businesses. In these circumstances, opportunity entrepreneurs thrive because they have more access to resources and more support from the government.

Commented [A6]: Yes.

It is often in hard times that the community need to get creative in order to provide for their family, that necessity entrepreneurs are born. The primary purpose of these entrepreneurs is to survive and to create an income to provide for their family. In more recent research, it was once again confirmed that opportunity-driven entrepreneurs tend to thrive in high-income countries and necessity entrepreneurs are dominant in low-income countries (Almodóvar-González *et al.*, 2020).

Commented [A7]: We are no in the “hard times”.

2.4 The influence of entrepreneurship on economic development in the world

Literature studies done by Almodóvar-González and colleagues revealed that only high potential companies and high expectation entrepreneurs have a significant impact on economic growth in countries. In contrast, entrepreneurial activities based on necessity do not have any long term effect on the economy (Almodóvar-González *et al.*, 2020). The difference between the impact of the economy was statistically based on the U adjustment. This implies that there is no or a negative impact on the economy in developing or less developed countries. At the same time, there is a positive impact on the economy in developed or high-income countries.

Small and medium-sized enterprises (SME), where most entrepreneurial organisations are found, play a vital role in the economic development of a country. According to the

OECD (Organisation for Economic Co-operation and Development) which consists of 36 countries in Europe, America and Asia, SME's contribute to 99% of all businesses. They are the leading providers of jobs and also dominant in providing economic growth.

2.5 The influence of entrepreneurship on economic development in Africa

The bulk of countries in Africa are classified as underdeveloped and economically poor. However, previous research claims that the stimulation of economic growth by entrepreneurship is significant in developed countries but not so much in emerging and developing countries, Michael Adusei disagrees. In his research, Michael Adusei examined if entrepreneurship promotes economic growth in 12 African countries (Adusei, 2016). Adusei's research showed that entrepreneurship indeed has a significant favourable influence on economic growth in the 12 African countries that he used and that it is crucial to the growth process of these countries.

Developing countries provide particular challenges to entrepreneurs, like poor infrastructure, the lack of human resources, exceptionally skilled labour, hostile policies, corruption, as well as unstable political situations.

Challenging environments in countries encourage the development of social and necessity entrepreneurs. Born Free Africa is a typical example, where John Megrue is one of the co-founders of this company that aims to end the transmission of HIV from mother to child. This company was started because a need was identified and the success of this company relies strongly on their partnerships with governments in the relevant African countries as well as their investors.

Taking the challenging environment of African countries into account like poor infrastructure, the lack of capital and human resources, hostile government policies and inappropriate trade policies, as well as corruption, the government must realise the vital role entrepreneurs can play in economic growth, and they should pay attention to provide more support to entrepreneurs.

2.6 The influence of entrepreneurship on economic development in South Africa

According to the Global Entrepreneurship Monitor South Africa (GEM SA), South Africa has access to a large number of natural resources. It has "the most industrialised economy on the African continent" (Bowmaker-Falconer & Herrington, 2020). In 2019

South Africa was rated 49th out of 54 countries for the quality of the entrepreneurial ecosystem according to The National Entrepreneurship Context Index (NECI) and 60th out of 141 countries according to the Global Competitiveness report.

Commented [A8]: Not good news.

With a current unemployment rate of 30% according to Statistics South Africa and a large number of young people in South Africa that lack skills and education, it is the ideal situation for necessity entrepreneurship. These entrepreneurs are predominantly found in the informal economy, but, in the current climate, they only provide income to the small community and does not have a significant influence on economic development.

Commented [A9]: The challenge is now to keep the country politically stable.

The percentage of individuals who believe that entrepreneurial opportunities in South Africa are well raised from 43.2% in 2017 to 60.4% in 2019, but the fear of failure is high at 49.8%. The business exit rate at 4.9% in 2019 is higher than the established 3.5%, which can be an indication of the lack of support that causes businesses to fail (Bowmaker-Falconer & Herrington, 2020).

The South African government has tried to promote entrepreneurship by implementing mechanisms like broad-based black economic empowerment. The Minister of the department of Small business development also announced in 2019 additional measures to support SMEs. Most of these mechanisms are only available to previously disadvantaged races, and it remains difficult for young white South Africans to enter the business world as an entrepreneur.

South Africa has ample opportunity for entrepreneurship. According to GEM SA, South Africa's education system is also a significant cause of economic stagnation. It is one of the significant challenges for the development of entrepreneurs, especially in the light of the fourth industrial revolution, where the ability to make use of digital opportunities will be crucial. This can also contribute to the high failure rate of entrepreneurs.

2.7 Conclusion

When comparing the elements that cause economic development with the contributions of entrepreneurship, it seems only logical that entrepreneurship must influence economic development and job creation. However, without help and resources to grow, it is not always as positive as we want to believe, and it is not always enough to encourage significant economic growth.

Entrepreneurs can change economic development and growth in a country by contributing to job creation, improving living standards, investing in the community and driving change with innovations, but only if the environment is favourable for innovation. The role of the government cannot be ignored and plays a significant part in the viability of entrepreneurship.

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