

THE ROLE OF THE NECESSITY AND THE OPPORTUNITY ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

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Entrepreneurship is a complex subject of study and its determinants, characteristics, dynamics and manifestations differ across countries. The level of economic development constitutes the contextual distinction for the research on entrepreneurship. There are different forms and ways of entrepreneurship in underdeveloping countries, developing countries and developed countries. In this paper, we aim to describe different types of "entrepreneurship" that affect economic development, focusing mainly on necessity and opportunity entrepreneurship.

Keywords: entrepreneurship, economic development, necessity entrepreneurs, opportunity entrepreneurs

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1. Defining the entrepreneurship

Although many economists try to give a definition of entrepreneurship, we consider that there is not such a complete definition containing all the aspects relevant to entrepreneurship. This concept has been in a continuous evolution since it was used for the first time in the literature by the French economist Richard Cantillona in the 18th century. For this paper we consider necessary to present the entrepreneur approached from an occupational definition, a behavioral definition, or an outcomes definition.

The *occupational definition* sees entrepreneurs as the self-employed; based on the notion that a person can either be unemployed, self-employed, or in wage employment. It is measured either statically (through the number of self-employed) or dynamically (through the rate of start-ups)¹⁰¹. In the economic development literature this definition of entrepreneurship is perhaps encountered most often, due to many formally-registered unemployed who seek to eke out a living through informal self-employment in small and medium sized enterprises (SMEs)¹⁰². Because many of these entrepreneurs are not in self-employment by choice but by necessity, a distinction is often made in the measurement of entrepreneurship between necessity entrepreneurs and opportunity entrepreneurs.

The former is self-employed because of the lack of wage employment, while the latter is self-employed by choice, in order to exploit some perceived 'opportunity'¹⁰³, or to overcome regulations or avoid taxes.

From a *behavioural* point of view, a number of definitions have described the entrepreneur according to perceived functions that are performed. Schumpeter (1961) views the entrepreneur as the coordinator of production and agent of change ('creative destruction'). As such the entrepreneur is an innovator. Kirzner (1973) described the entrepreneur not primarily as someone who initiates change, but who facilitates adjustment to change by spotting opportunities for profitable arbitrage. Knight (1921) emphasized the uncertainty attached to the exploitation of

101 Wennekers, S. and Thurik, R. (1999). „Linking Entrepreneurship and Economic Growth”, Small Business Economics.

102 Banerjee, A.V. and Duflo, E. (2007). „The Economic Lives of the Poor”, Journal of Economic Perspectives.

103 Global Entrepreneurship Monitor, (GEM), www.gemconsortium.org

opportunities. According to Schultz (1975) the entrepreneur is anyone who can „perceive an economic disequilibrium, evaluate its attributes [...] and if it is found to be worthwhile to act, reallocate their resources”. Entrepreneurship need not result in creation of new firms, from Schult’s definition. According to Hitt et al. (2001) entrepreneurship constitutes a part of the management function within existing firms.

In recent years the behavioural notion of entrepreneurship has been broadened to include the concepts of corporate entrepreneurship/strategic entrepreneurship and “intrapreneurship”, which has been defined as the “pursuit of creative or new solutions to challenges confronting the firm”¹⁰⁴.

Entrepreneurship can also be defined from the *outcomes* that different types of entrepreneurship can have on the economy. These definitions are based on the realisation that not all forms of entrepreneurship are good for economic development. According to Baumol (1990)¹⁰⁵ entrepreneurship can be productive, unproductive (e.g. rent-seeking), or even destructive (e.g. illegal activities). He defines entrepreneurs as „persons who are ingenious and creative in finding ways that add to their own wealth, power, and prestige”. According to Coyne and Leeson (2004)¹⁰⁶ this may imply that underdevelopment is not due to an insufficient supply of entrepreneurs, but due to a „lack of profit opportunities tied to activities that yield economic growth”.

2. The role played by entrepreneurship into economic development

In the literature, authors such as Schumpeter, Baumol, Wennekers consider the entrepreneurship as an important mechanism for economic development through employment, innovation and welfare effects. The dynamics of entrepreneurship can be vastly different depending on institutional context and level of economic development. There are considerable differences across countries in the orientation of entrepreneurial activities (see GEM 2007). The nature and structure of entrepreneurial activities varies across countries as reflected by, for example, the relative volumes of necessity and opportunity entrepreneurship. In a report of GEM it is shown that opportunity entrepreneurship has a positive significant effect on economic development, whereas necessity entrepreneurship has no effect.

From another point of view, entrepreneurship achieves important functions related to efficiency, competition, product innovation, pricing and industry survival by acting either to disequilibrate (Schumpeter 1934), to equilibrate (Kirzner 1997) or to do both (Hall 2007) in the market. However, the nuances of entrepreneurship are not easily generalized and complicate policy-focused interpretations related to level and role of economic development.

Entrepreneurship offered many things that other economic development interventions did not. First, entrepreneurship is a local and regional level activity, and new firms can immediately begin to create benefits for their host locations. For this reason, the idea of entrepreneurship was a perfect complement to an increasing focus on community-based economic development.

Second, economic development interventions focused on building hard infrastructure (bridges, roads, transportation networks), and often neglected to consider how the infrastructures would be used. Entrepreneurship can work without a perfect system of hard infrastructure (or, at least, can begin to work) and often with minimal other resources. In many countries, entrepreneurship has gained popularity because it can be a low-cost, high-impact approach to economic development. Third, although economic development interventions were able to create macroeconomic changes and build infrastructure, they were still unable to address immediate and short-term problems.

104 Antoncic, B. and Hisrich, R.D. (2001). „Intrapreneurship: Construct Refinement and Cross-Cultural Validation”, *Journal of Business Venturing*.

105 Baumol, W. (1990). „Entrepreneurship: Productive, Unproductive, and Destructive”, *Journal of Political Economy*.

106 Coyne, C.J. and Leeson, D.T. (2004). ‘The Plight of Underdeveloped Countries’, *Cato Journal*.

Entrepreneurship can address individual-level needs related to income and employment. At the very least, entrepreneurship creates one job for the entrepreneur as well as income. At best, it generates additional jobs and (financial or nonfinancial) incomes for other people.

3. The necessity versus the opportunity entrepreneurship and the implications for policy

Necessity versus opportunity entrepreneurship is largely determined by the level of economic development in the long run and the actual state of the economy in the short run¹⁰⁷. Necessity entrepreneurship is more common in lower-income countries and decreases with the level of economic development¹⁰⁸. Gross domestic product (GDP) growth has no significant impact on necessity entrepreneurship and a positive impact on opportunity entrepreneurship¹⁰⁹. However, the impact of these variables may also differ for different types of opportunity entrepreneurship.

A nation's economic development depends on successful entrepreneurship combined with the force of established corporations. However, the beneficial value of this mechanism varies with the national income, as measured by GDP per capita. At low levels of national income, self-employment provides job opportunities and scope for the creation of markets. As GDP per capita income increases, the emergence of new technologies and economies of scale allows larger and established firms to satisfy the increasing demand of growing markets and to increase their relative role in the economy.

At the same time, the numbers of business start-ups decrease as a growing number of people find stable employment. Finally, as further increases in income are experienced, the role played by the entrepreneurial sector increases again, as more individuals have the resources to go into business for themselves in a business environment that allows the exploitation of opportunities. In high-income economies, through lower costs and accelerated technology development, entrepreneurial firms enjoy a newly found competitive advantage. Thus, entrepreneurs in countries with different levels of GDP per capita, face different challenges. As a result, policies and conditions favorable to entrepreneurship in one country (or region) may not be effective or favorable in another.

Less developed countries need to strengthen their Small and Medium Sized sector, before focusing on the entrepreneurial framework conditions, since this is the first step toward development. These policies are focused at firms not at individuals. These include financial assistance, management assistance, training and reducing regulatory burdens. Part of the goal should be to reduce the number of self-employed and strengthen the existing Small and Medium Sized Sector. Underdeveloped countries should be focuses on bringing in direct foreign investment that would employ more of the people leaving agriculture and self-employment. There is also important a strong commitment to education and training, both at the elementary and secondary level. Those with less education in developing countries will end up in necessity entrepreneurship.

Developing countries need to strengthen the conditions to improve the quality of entrepreneurial environment for major established firms, including the rule of law, labor market flexibility, infrastructure, financial market efficiency and management skills. Most of these conditions are necessary to attract foreign direct investment that will provide employment, technology transfer, exports and tax revenues. Entrepreneurship in developing countries should be focused on strengthening the entrepreneurial sector. Also, it is necessary a strong commitment to education at both the secondary and tertiary level.

For *developed economies* the focus of an entrepreneurial economy is on change. Entrepreneurial economies need to strengthen technology transfer, make early stage funding available, and

107 Global Entrepreneurship Monitor—2005 Executive Report.

108 Wennekers, S., van Stel, A., Thurik, R., & Reynolds, P. (2005). „Nascent entrepreneurship and the level of economic development”, *Small Business Economics*.

109 Van Stel, A. J., Storey, D. J., & Thurik, A. R. (2007). „The effect of business regulations on nascent and young business entrepreneurship”, *Small Business Economics*.

support entrepreneurial activity at the state, corporate and educational level, especially at the university level.

Entrepreneurial activity in developed countries needs to focus on high value added, high technology, innovation and technology commercialization. Finally, in developed economies the higher education system needs to play an important role in research and development, technology commercialization and education.

4. Conclusion

Necessity entrepreneurs engage in entrepreneurship to avoid unemployment, whereas opportunity entrepreneurs pursue a recognized opportunity for profit. Necessity entrepreneurs make up an important part of the total set of entrepreneurs in developing countries, and are relatively less common in developed countries.

In developing countries the entrepreneurship is concerned with starting and accelerating growth, and in providing impulse to the structural transformation of economies; in the advanced economies the concern is largely with obtaining new sources of productivity growth (which underlies competitiveness).

The ration of opportunity to necessity entrepreneurship is a key indicator of economic development. As more and more of the population becomes involved in opportunity entrepreneurship and as more and more people leave necessity entrepreneurship (self-employment) the more we see rising levels of economic development.

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