principles of Entrepreneurship

>>>> 17. Entrepreneurship Aids the Economy

Most economists agree that entrepreneurship is essential to the vitality of any economy, developed or developing.

Entrepreneurs create new businesses, generating jobs for themselves and those they employ. In many cases, entrepreneurial activity increases competition and, with technological or operational changes, it can increase productivity as well.

In the United States, for example, small businesses provide approximately 75 percent of the net new jobs added to the American economy each year and represent over 99 percent of all U.S. employers. The small businesses in the United States are often ones created by self-employed entrepreneurs.

"Entrepreneurs give security to other people; they are the generators of social welfare," Carl J. Schramm, president and chief executive officer of Ewing Marion Kauffman Foundation, said in February 2007. The foundation is dedicated to fostering entrepreneurship, and Schramm is one of the world's leading experts in this field.

Others agree that the benefits of small businesses go beyond income. Hector V. Baretto, administrator of the U.S. Small Business Administration (SBA), explains, "Small businesses broaden the base of participation in society, create jobs, decentralize economic power, and give people a stake in the future."

Entrepreneurs innovate and innovation is a central ingredient in economic growth. As Peter Drucker said, "The entrepreneur always searches for change, responds to it, and exploits it as an opportunity." Entrepreneurs are responsible for the commercial introduction of many new products and services, and for opening new markets. A look at recent history shows that entrepreneurs were essential to many of the most significant innovations, ones that revolutionized how people live and work. From the automobile to the airplane to personal computers – individuals with dreams and determination developed these commercial advances.

Small firms also are more likely than large companies to produce specialty goods and services and custom-demand items. As Schramm has suggested, entrepreneurs provide consumers with goods and services for needs they didn't even know they had.

Innovations improve the quality of life by multiplying consumers' choices. They enrich people's lives in numerous ways – making life easier, improving communications, providing new forms of entertainment, and improving health care, to name a few.

Small firms in the United States, for instance, innovate far more than large ones do. According to the Small Business Administration, small technology companies produce nearly 13 times more patents per employee than large firms. They represent one-third of all companies in possession of 15 or more patents.

According to the 2006 Summary Results of the Global Entrepreneurship Monitor (GEM) project, "Regardless of the level of development and firm size, entrepreneurial behavior remains a crucial engine of innovation and growth for the economy and for individual companies since, by definition, it implies attention and willingness to take advantage of unexploited opportunities." The GEM project is a multi-country study of entrepreneurship and economic growth. Founded and sponsored by Babson College (USA) and the London Business School in 1999, the study included 42 countries by 2006.

International and regional institutions, such as the United Nations and the Organization for Economic Cooperation and Development, agree that entrepreneurs can play a crucial role in mobilizing resources and promoting economic growth and socio-economic development. This is particularly true in the developing world, where successful small businesses are primary engines of job creation and poverty reduction.

For all of these reasons, governments may wish to pursue policies that encourage entrepreneurship.