

THE ROLES OF ENTREPRENEURS IN THE SOCIETY

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ABSTRACT

Entrepreneurs and entrepreneurial firms are attributed with a myriad of positive effects and roles by researchers over the years. However, how many of them are true? In this paper, three main roles that were attributed to entrepreneurs and entrepreneurial firms were discussed. In conclusion, it was found that out of the three discussed roles, two turns out to be unsubstantiable in face of a more stringent scrutiny. Hence, through this paper, I propose that there is a need to relook into the roles and effects that entrepreneurs and entrepreneurship can bring to the society in future research.

Keywords: Entrepreneur; Entrepreneurial Firm; Roles; Society.

INTRODUCTION:

Entrepreneurship has been seen by many researchers as the driver of the society (Frederick & Kuratko 2010). For example, they had been lauded for their contributions to things such as national employment, society building, innovation, economic development, community regeneration, etc. (e.g., Frederick & Kuratko 2010). Although these may be true for some entrepreneurs such as Steve Jobs and Bill Gates, are these really true from a macro-perspective? That is, when we take entrepreneurial activities in totality, are most, if not all, entrepreneurs and entrepreneurial firms have such positive effects on the society, or country, that they are situated in general?

Having this question in mind, in this paper, I shall examine the validity of three claims that many researchers have associated with entrepreneurs and entrepreneurial firms about the key roles that they play in the society: key player in introducing new product and process innovations, local economy's developer, and local community's regenerator.

I shall discuss each of these claims in the sequence stipulated.

ENTREPRENEURS AS KEY PLAYERS IN INTRODUCING NEW PRODUCT AND PROCESS INNOVATIONS:

When one talks about entrepreneurs and entrepreneurial firms, one would usually think of people such as Steve Jobs and Bill Gates, and companies such as Apple and Microsoft. However, are these typical entrepreneurial firms and entrepreneurs that we would usually see in the street?

Entrepreneurship has been broadly defined as new business creation (Gartner 1989), and entrepreneurs were taken by many researchers to refer to business owners who start and run their own businesses (Davidsson 2004; Gartner 1990; Rauch & Frese 2007). This definition is used by prominent entrepreneurship research organisations such as Global Entrepreneurship Monitor (GEM; Global Entrepreneurship Monitor n.d.), and many entrepreneurship researchers.

Essentially, this means that while very innovative individuals such as Steve Jobs are recognised as entrepreneurs, people who are not very innovative, but have nevertheless started their own businesses, such as a grocery shop owner, can also be considered as entrepreneurs. Hence, entrepreneurs are further categorised into two groups: imitative entrepreneurs and innovative entrepreneurs; and opportunity entrepreneurs and necessity entrepreneurs (Frederick & Kuratko 2010; Shane and Venkataraman 2000). That is, some entrepreneurs do not start a business to pursue growth and innovation (Frederick & Kuratko 2010), but rather, they only start a firm to earn themselves a living by doing things such as imitating what some others are already doing.

Indeed, according to Alrich and Martinez (2001), not all entrepreneurs are “innovators” that offer something new. In fact, many entrepreneurial firms (firms that are owned and run by entrepreneurs) are merely “reproducers”: they offer something that is already in existence.

By definition, while creativity refers to the generation of novel and useful ideas (Hirst, Dick & Knippenberg 2009; Hulsheger, Anderson & Salgado 2009; Thompson 2003), innovation refers to the implementation of new ideas to come up with things such as new products / processes (Anderson & West 1998; Hulsheger et al. 2009; King 1992). Given this, while one might be tempted to say that the role of being key players in introducing product and process innovations is mis-attributed to entrepreneurs, the reality should be the contrary.

“New” is a relative term. When an entrepreneurial firm is said to have introduced something new to the market, it needs not to be always about the introduction of a radically new invention (Frederick & Kuratko 2010; King 1992). For example, it can just be the selling of new products that were invented by some major public institutions, such as universities, that were not yet fully exploited towards the commercial end (Shane 2000).

On the other hand, it might also be the introduction of something which was not previously seen in a country, industry, or market, from another place (Cliff, Jennings & Greenwood 2006), such as the introduction of bubble tea from Taiwan to Singapore (asiaonehealth 2010). If not, it can also be the extension, duplication and improvement, or the synthesis of products/processes that are already known (Frederick & Kuratko 2010). This might be the reason why entrepreneurship is defined as a “dynamic process of vision, change, and creation” which involves the “creation and implementation of new ideas and creative solutions” (Frederick

& Kuratko 2010, p.11); and entrepreneurs are addressed as innovators interchangeably by some researchers (for e.g., see Frederick & Kuratko 2010).

While non-entrepreneurial firms can also be involved in such activities, it is unlikely for it to be as “active” as its entrepreneurial counterparts. This is because as entrepreneurial firms tend to be smaller in size, it will be more organic in nature, which will in turn facilitate the occurrence of innovation and creativity activities (Robbins, Bergman, Stagg & Coulter 2009). For example, for a proposed research to be approved in a big corporation, it may take several months, if not years, for it to clear the many levels of hierarchy and detailed scrutiny. However, in entrepreneurial firms, the process can be as easy as just walking over to the CEO’s office, which may be just across the corridor, and convince him/her about the proposal.

Moreover, innovations in big corporations are usually constrained by factors such as consumers out-reach. That is, if the anticipated market is not big enough, some projects may not be adopted at all even if it is very innovative. For example, for niche markets that are too small, the opportunity might not be pursued at all.

By definition, a “niche” refers to a group of customers whose needs are not yet satisfied (Kotler, Armstrong, Ang, Leong, Tan & Tse 2005). In my opinion, insofar as there is a need, it is worthwhile to pursue it. For example, the post-it invention was originally meant for some employees in 3M only. However, after it was introduced, the market-base quickly increased to become the whole company, followed by becoming a global market.

Another good example would be items such as hand phones and computers. When it was first introduced, it was so expensive that only those who are rich would be able to afford it. However, with technological advancements, it has not only become something that is affordable by the public, it has become more of a necessity, a need, than a luxury good as per in the past. Such expansion in market-base would not be easily foreseeable by most people in the past. If the related companies did not bother to pursue such “niche” opportunity in the past, such wide market-base would never be achieved today.

Given that most big corporations’ innovative pursues are constrained by budgetary mechanisms such as justifiable market base that can be achieved almost instantly after the introduction of a new product or process, based on the information that is available at hand during the inception of a product, such “niche” opportunity is not likely to be pursued by them. During such instances, it is the entrepreneurs who would take the risk to seize the opportunity to pursue such opportunity, and make such innovation possible.

Hence, although innovations will not necessarily be successful (King 1992), entrepreneurial firms should be considered to be playing a key role in introducing new product and process innovations.

ENTREPRENEURIAL FIRMS AS THE LOCAL ECONOMY’S DEVELOPERS:

By saying that entrepreneurial firms are developers of the local economy, it is either alleging that such firms contribute to the majority of a country’s economic activities, or claiming that such firms are the sole contributor to a country’s economy. Given the current prevalence of foreign investments and MNCs (multinational companies), the second possible interpretation of the claim is outright false. Hence, the discussion in this section will focus on reviewing the first interpretation of the claim.

It was suggested by Schmitz (1989) that entrepreneurial activities have a positive relationship with economic activities: the more entrepreneurial activities, the better the economy. However, as this conclusion was based on a theoretical model, how true is it in face of the real world?

According to GEM’s data, Singapore’s rate of entrepreneurial activities is just 4.9%, as most Singaporeans prefer to work in large corporations and the public sector (Frederick & Kuratko 2010, p.515). Together with the statistics of entrepreneurial activities in many other countries, the stand by Schmitz (1989) cannot be true given the low rate of contribution to economy by entrepreneurial firms.

In my opinion, the driver behind economic growth is innovation (Carree & Thurik 2003; Wennekers & Thurik 1999). Although entrepreneurial firms play a key role in introducing new products and processes into the economy (Audretsch 1995; Jovanovic 1982), they are not the sole contributor (Wong, Ho & Autio 2005). Hence, in an empirical research conducted by Wong, Ho, and Autio (2005) using GEM’s entrepreneurship data of 37 countries, it was found that while innovation is positively associated with GDP (gross domestic product) growth, higher total entrepreneurial activity rate was not found to be positively correlated with GDP growth. That is, while innovation contributes to the economies of the 37 countries, there is no strong evidence for entrepreneurial activities to have the same effect.

One potential reason might be entrepreneurial firms do not contribute as much to a country’s economy as

other institutions in the industry, such as large corporations. For instance, as large corporations have more formal planning processes and greater resources than entrepreneurial firms, it is highly possible that their innovations might have a higher financial success rate than entrepreneurial firms.

Moreover, although it was claimed that entrepreneurial firms created most of the jobs that are available in the market (Baldwin and Picot, 1995; Birch 1987), it must be noted that necessity entrepreneurs are a big part of the group. These are people who started their own businesses to earn enough money for a living after they had stopped looking for a job. Although such firms guarantee the employment of these business owners, it does not contribute to economic growths (Van Stel and Storey 2004).

In fact, they might contribute more to the economy if they are engaged in wage-employment. Indeed, according to Audretsch, Carree, Van Stel, and Thurik (2002) and Carree, Van Stel, Thurik and Wennekers (2002), there is an equilibrium between wage-employment and self-employment (entrepreneurship) in each economy. Once the rate of entrepreneurial activities got too high, the GDP growth rate of the economy will be significantly hurt. The presence of this curvilinear relationship between entrepreneurial activities and GDP growth rate might be the reason behind the non-significant relationship that was reported by Wong et al. (2005).

Given this, as a developer of a state's economy should be one which can improve it when it has a greater presence, and not to cause it to "fall" after its growth has exceeded a certain point, entrepreneurs and entrepreneurial firms cannot be claimed as local economy's developers. That is, although some of the innovation that they have brought upon the societies that they are situated in can bring economic growth to the place, it is not significant enough for them to be worthwhile of the title of being those economies' "developers".

ENTREPRENEURS AS COMMUNITIES' REGENERATORS:

The term "regenerator" refers to entrepreneurs, or entrepreneurial firms, as being the agents that bring changes to a community towards the better end. If this is the case, then the validity of the claim becomes relative in nature, such that it depends on which firm we are looking at.

Theoretically, large organisations tend to have some industrial practices that are deeply rooted. According to institutional theorists, these are called standards that established organisations need to abide by for them to have the legitimacy to stay in the industry (Berger & Luckmann, 1966; DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Under such context, it is usually those new firms that are created by entrepreneurs who are not familiar with the industrial context who introduced changes (Cliff et al. 2006). This is part of what some researchers would call "creative destruction" (Schumpeter 1942). This will not only influence how the industry operates, but also those who work inside it, and people around them.

Although such changes may sometime change the whole country, if not the whole world, it is not necessarily so: whether the extent of the impact is great enough for it to affect both rural and urban communities depends on the case that we are studying. For example, although a Chinese tycoon was recently sentenced to death for defrauding hundreds of million yuan from investors, the impact of this case was only limited to those who were affected directly despite the great negative economic and social impact that this case had brought upon the country (The Straits Times 2012a). However, some labour claims in some other countries have resulted in the change of the country's legislation even the claims made were only for some small groups of employees, and the economic and financial considerations involved were not as significant as the case prior mentioned (Robbins et al. 2008).

Moreover, actions of entrepreneurial firms do not necessarily bring positive effect on the communities. For example, food contaminations had occurred in countries such as China, and caused great damages nationwide. For instance, the milk contamination case of China in 2008 caused more than 300,000 people to become sick after drinking the contaminated milk (Lee 2011). Recently, several chemical plants' executives in China were arrested for discharging toxic industrial wastes into the river, which may cause harmful effects to millions of people who relied on the river for their daily lives (The Straits Times 2012b). Given this, whether actions of entrepreneurial firms are regenerating on the communities or destructive to them also depend on the actions and firms that are in perspective.

Hence, as whether the actions of entrepreneurial firms are far-reaching enough to influence both the rural and urban communities, and even if it does, will the effect be regenerating or destructive, depend on the firms, locations, and actions that we are looking at, it might not be appropriate to attribute the role of

“community’s regenerator” to entrepreneurs as the reason behind this claim of those researchers who made such claim might be based on some companies that had happened to do “the right thing at the right time” to catch these researchers’ attention during their research. That is, this claim might not be made based on solid scientific research outcomes, but just some pseudo-science results that were affected by sampling errors.

CONCLUSION:

Entrepreneurs and entrepreneurial firms have been attributed with a myriad of positive effects by researchers. In the process of researching on these groups of companies and people, some researchers have also categorised them under the names of a variety of roles which are predominantly positive in nature. However, how true can these claims be? In this paper, three main roles that were attributed to entrepreneurs and entrepreneurial firms were discussed, and the validity of the claims were scrutinised.

Firstly, the role of entrepreneurs and entrepreneurial firms as the key players in introducing new product and process innovations into the market is discussed. At the end of the discussion, it was proposed that although the product and process introduced by entrepreneurs and entrepreneurial firms might not be something radically new or successful, it is a form of innovation, and they should be considered to have played a key role in such activities.

Secondly, the role of entrepreneurial firms and entrepreneurs as the developers of their local economies is discussed. Based on the literature and the relevant statistics, it was proposed that the developer of the local economies of the places where entrepreneurial firms operate should be innovations and not entrepreneurial activities: although entrepreneurial activities should be correlated with innovation, it should not be taken as the same concept and used interchangeable. In fact, too much entrepreneurial activities may hurt a location’s economy. Hence, although it can have the effect of lowering the unemployment rate, entrepreneurial firms and entrepreneurs should not be considered as the developers of the local economy.

Lastly, the role of entrepreneurial firms and entrepreneurs as the regenerators of local communities is discussed. In view of the myriad of events that are caused by or are associated with entrepreneurs or entrepreneurial firms have different effects on the society that they are located in, the validity of claiming that entrepreneurs and entrepreneurial firms assume the role of local communities’ regenerators becomes relative in nature. That is, whether an entrepreneur or entrepreneurial firm is a regenerator or destructor of the local community depends on who or which firm we are looking at. As whether the impact of entrepreneurial activities is great, or whether it is positive or negative in effect, depends on the firm that we have in mind, it may be inappropriate to attribute entrepreneurs and entrepreneurial firms with the role of local communities’ regenerators.

Given this, it can be seen that out of the three key roles of entrepreneurs and entrepreneurial firms that were discussed in this paper, two turns out to be unsubstantiable in face of a more stringent scrutiny process. If this is the case, then how many more of those roles and positive effects that are usually associated with entrepreneurs and entrepreneurial firms are false?

Hence, I hereby call for research to be done to re-investigate the roles that entrepreneurs and entrepreneurial firms play in the society, and the effects that they have on the society lest more people are misled into attributing the wrong roles and effects to these concepts in further research and projects.

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