

## Why Entrepreneurship is Important

Entrepreneurship plays a vital role in today's society for various reasons. The entrepreneur is often the source of innovation, providing the market place with new and improved products and services. The successful entrepreneur who is able to start and grow a business also contributes to the overall growth and welfare of the economy. This positive impact on the economy is seen through an increased Gross Domestic Product (GDP), as well as additional jobs available on the market. In addition to looking deeper into the above ideas, I will also discuss the factors and influences that have and will continue to affect entrepreneurship in the future.

A good starting point would be a definition of what entrepreneurship is, unfortunately this is no easy task. If there is one thing that all researchers of the topic of entrepreneurship can agree on, it is that there is not one simple definition. The Cambridge dictionary defines the entrepreneur as "someone who starts their own business, especially when this involves risks."<sup>1</sup> Austrian economist Joseph Schumpeter, long renowned for his research on entrepreneurship, chooses to focus on innovation and places an emphasis on new products, new markets, new production methods, and new forms of organization.<sup>2</sup> Entrepreneurship certainly involves starting a new business, but all business involves risk; leading me to place a greater importance on the idea of innovation. It is the end result of this innovation that I believe makes entrepreneurship so important.

In 1876, at the age of 29, Alexander Graham Bell invented the telephone. In 1877, he formed the Bell Telephone Company.<sup>3</sup> While many can recall Bell as the inventor of the telephone, one of the greatest innovations of the modern era, few may realize the entrepreneurial nature under which the telephone came into existence. Bell, unable to fund such an undertaking, received financial backing from his future father-in-

---

<sup>1</sup> Cambridge dictionary, "Entrepreneur," <<http://dictionary.cambridge.org/>>, 2004.

<sup>2</sup> QuickMBA, "A Definition of Entrepreneurship," <<http://www.quickmba.com/entre/definition/>>, 1999-2004.

<sup>3</sup> Mary Bellis, "The History of the Telephone," <<http://inventors.about.com/library/inventors/bltelephone.htm>>, 2004.

law, Boston attorney Gardiner Greene Hubbard. Hubbard resented the absolute control exerted by the Western Union Telegraph Company, and saw the potential Bell had to break the monopoly. Hubbard loaned Bell the money in order to help Bell in his work on the multiple telegraph, which would seek to gain market share from Western. What Hubbard didn't realize is that his funding ultimately would result in the invention of the telephone.<sup>4</sup> I love this story because it contains the essential aspects of entrepreneurship: an idea, the starting of a business, risk, innovation, and ultimately success.

There are without a doubt countless examples of entrepreneurs and their innovations that have altered the way society functions. With many of these innovative products and services come entirely new markets. Not only do these markets provide the consumer with additional choices, they also lead to higher product quality and more competitive prices. These benefits to the consumer accrue from the competitive forces that supply and demand put on businesses in a particular market. Just look at the personal computer market as an example. In 1975 IBM introduced its first personal computer, the IBM 5100. Depending on the amount of memory the consumer desired, they could spend anywhere from \$8,975 to \$19,975.<sup>5</sup> Just last year I purchased a Compaq computer for \$999. Obviously many factors play a part in the drastic reduction in the price of personal computers, including multiple companies currently fighting for market share, cost reductions in component parts, and perhaps most importantly innovations in the production process.

As Schumpeter stated, encompassed within the concept of entrepreneurship is the innovation of new production methods. I definitely agree with this concept. In a marketplace where only the fittest survive, those companies that are able to convert inputs into output most efficiently are going to prosper economically. The innovator who is able to not only envision a new production method, but is able to institute that method successfully within their organization is without a doubt, in my mind, an entrepreneur. Just as starting a business involves risk, takes creativity, innovation and leadership, all components of the entrepreneur, so does implementing a new business or production

---

<sup>4</sup> Mary Bellis, "The History of the Telephone," <http://inventors.about.com/library/inventors/bltelephone.htm>, 2004.

<sup>5</sup> Blinkenlights Archaeological Institute, "Pop Quiz: What Was the First Personal Computer," <http://www.blinkenlights.com/pc.shtml>, 1999-2002.

method. Look at the case of Mercedes Benz and one of their latest innovations, a nano-particle clear coat lacquer that is virtually scratch proof and improves gloss. The new technology ensures that this new product is substantially more scratch-resistant than regular paint. The lacquer, now applied to most Mercedes Benz models, makes them the only cars in the world equipped with such a high performance product. This latest lacquer and its application process contribute towards considerably enhancing the already exemplary long-term quality and value retention of its passenger cars.<sup>6</sup> Innovations in production methods such as these set Mercedes Benz apart from their competitors in the automobile industry. I believe it is the corporate culture at Mercedes Benz that values an entrepreneurial nature which contributes to their continued success in implementing the latest and most developed value adding production methods in their industry.

Entrepreneurship definitely plays an important role in the development and introduction to the marketplace new and innovative goods and services, each of which are valued by society. I believe entrepreneurship also fosters economic growth. Extensive research is only beginning to be done on this aspect of entrepreneurship. Because there are many different types of entrepreneurs: some which start their own businesses, and others which implement innovative processes within their current businesses; it is difficult to measure the exact impact entrepreneurship has on the economy. The Small Business Administration estimates about 600,000 new businesses are started each year. In addition, about 25.5 million small businesses employ more than half the U.S. work force. Lastly, there are roughly 10 million people in the U.S. who are self-employed.<sup>7</sup> These statistics make it quite clear that entrepreneurship is not only contributing substantially to the GDP of our economy, it is also helping provide employment for millions of individuals.

The framework of the American constitution is built upon the ideals of freedom and independence. The American dream is to become something from nothing, to achieve wealth and personal satisfaction regardless of the circumstances into which you were born. Entrepreneurship is a medium that can open the door to such opportunities.

---

<sup>6</sup> Azonano, "Mercedes-Benz Introduces Innovative Nano-Particle Automobile Paint," <<http://www.azonano.com/news>>, 2004.

<sup>7</sup> Stephen Dunphy, "Small businesses: A big part of our economy," <<http://seattletimes.nwsourc.com/news/business/small/>>, February 2003.

Jobs are created when an entrepreneur is able to take an idea and create a thriving business. Small businesses have helped create more than 14 million new jobs in the past decade.<sup>8</sup> Wealth is dispersed to more individuals as these businesses grow and prosper. As wealth is created and dispersed new capital for further investment becomes available. This new investment can fund research and development in the hope of finding newer innovations that will further not only our society, but also the economy. It is for these reasons I believe entrepreneurship plays such an important role in the economy and its growth in the future.

I've made it sound easy: just formulate an idea; open a business and you are on your way to financial success. Obviously, it is not so simple and in fact the entrepreneur must deal with various factors in actually forming a business. Many times the biggest obstacle can be obtaining the necessary financing to get the business off the ground. Some entrepreneurs are able to use personal savings, but the majority must seek outside sources for financing. In recent years funding for start-up companies has become more available. Banks now have various programs tailored for such companies, making loans more accessible. The Small Business Administration, which focuses on helping start-up companies, provides more than \$15 billion annually in start-up loans.<sup>9</sup> If debt is not the entrepreneur's choice of funding, venture capital offers an additional source of financing. Venture capital involves finding personal investors or investment groups to give you money in exchange for equity in your company. Each method of obtaining financing involves risk. If the business venture is unsuccessful, using personal savings may leave the entrepreneur with nothing, and loans are often required to be personally guaranteed with collateral such as a house. On the other hand, if the business is successful and venture capital was your choice of financing, you will pay much of your profits to your investors. It is each entrepreneur's responsibility to weigh the positives and negatives of the different methods of financing.

Another factor affecting the success of the entrepreneur is the legal protection of intellectual property. Included in the concept of intellectual property are patents and trademarks. The patent provides legal protection of new inventions and production

---

<sup>8</sup> Stephen Dunphy, "Small businesses: A big part of our economy,"  
<<http://seattletimes.nwsourc.com/news/business/small/>>, February 2003.

<sup>9</sup> Bruce D, Mohsin M, Tax Policy and Entrepreneurship: New Time Series Evidence. Tennessee: 2003.

methods. In the case of Alexander Gram Bell the patent would have protected his invention, the telephone, from being identically copied and brought to the market by another individual. Trademarks protect a company's identity. The Nike Swoosh is an example of a registered trademark. This trademark bars anyone from copying or using the Nike Swoosh for commercial purposes. Patents and trademarks are obtained from the Patent and Trademark Office (PTO). It is to the entrepreneur's advantage, when applicable, to take advantage of the protection offered by the government in regards to intellectual property. Knowing that your product innovations and business identity can be protected from others attempting to profit from them unfairly provides the entrepreneur with the incentive to be creative in marketing new and profitable products and services.

In addition to the factors I've mentioned above, I also believe the culture of America has and will continue to influence entrepreneurship. By culture I am referring to the values and norms members of our society hold to be important. All Americans value independence and many have the desire to be their own boss. Individual achievements are also looked highly upon by members of our society. If the individual finds personal satisfaction in attaining these things, then being an entrepreneur may be the ideal career path. While owning your own business brings risk, it also allows the entrepreneur these freedoms which may not be available when you are not your own boss. As evidenced by the number of small businesses that are started each year, it is difficult to argue with the idea that Americans value the independence that comes with being in control of their professional lives.

Entrepreneurship has and will continue to influence our society both in the innovation of new products and services, as well as in the growth of the economy. Research and statistics show the effect that successful entrepreneurs have had on both of these areas. Many factors help foster an entrepreneurial drive among many Americans, including Government loan programs and the protection of intellectual property. The culture of America will also play its role in influencing entrepreneurs as more Americans value the benefits that come with being their own boss.