

Entrepreneurship a Panacea for Unemployment, A Myth or Reality?

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ABSTRACT

Unemployment is a global challenge especially to developing nations like Pakistan. In the current era motivating the nation towards entrepreneurship is recommended to be a solution of unemployment. As adequate number of jobs both in government and private sectors are not being generated due to economic crisis in Pakistan, it is perceived that more entrepreneurial projects should mitigate the unemployment. Nevertheless, opting entrepreneurship is one solution, however the question arises is it a universal solution of unemployment for people of all classes in a nation? This conceptual cum empirical study contributes a critical view on the role of entrepreneurship in mitigating unemployment in Pakistan with the help of existing literature, expert's opinions and logical analysis. The study concluded that although entrepreneurship is a solution for unemployment, but it is not universally applicable for all people in Pakistan. The study recommends that measures must be taken to ensure balance of new vacancies in all walks of life as every person in the nation cannot serve an entrepreneur. Further, a nation for its prosperity and growth depends on quality professionals in all spheres of life. The study therefore concluded not to consider entrepreneurship a panacea. In addition to using entrepreneurship as one tool, it recommends production and utilization of quality professionals in all walks of life with continuous generation of adequate vacancies at a predefined periodic interval to address unemployment effectively.

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Introduction

Faria, Cuestas and Mourelle (2008) and (Parker, 2004) confirmed that there exists a positive relationship between entrepreneurship and unemployment. The general perception is that greater the magnitude of entrepreneurship in a country, more effective mitigation of unemployment becomes possible. The literature reports two universally accepted effects of entrepreneurship in this context that are the Refugee Effect and Schumpeter Effect (Andre, Roy & Ingrid, 2007). The Refugee Effect endorses that unemployment should lead entrepreneurial ventures when cost of business is low while the Schumpeter Effect acknowledges that entrepreneurial activities put a healthy effect on the economy of nations. In summary literature confirms a two way interdependency between entrepreneurship and unemployment. This study while acknowledging these logical connections is interested in exploring what tangible benefits entrepreneurship has contributed in mitigating unemployment in Pakistan.

As unemployment in Pakistan is a burning issue, an undocumented belief is prevailing in the public and academic institutions to consider entrepreneurship a panacea for unemployment. This study critically analyzes this view for the fact that nations for their growth and prosperity cannot just rely on one sector or domain that is entrepreneurship. Indeed nations need job vacancies to be generated preferably at a prefixed annual interval in all spheres of life. Nations certainly need to hire and develop bureaucrats, technocrats, doctors, engineers, pilots, factory workers, politicians, entrepreneurs etc. etc. in a balance. Pakistan is a country where very strong tendency exists of blindly following a prevailing trend. Like during the last decade of recent century, majority focused towards Information

Technology. Every Hick and Harry wanted to be an IT professional. After a decade the result is that currently there is no IT minister in Pakistan in the present government. The study intends to identify that blind imitation of fads and trends leads to no effective solution of unemployment. The study therefore is interested in exploring is entrepreneurship a panacea for unemployment in Pakistan?

Literature Review

Faria, Cuestas & Mourelle (2008) and (Parker, 2004) stated that entrepreneurship is one of the main life-force of modern economic growth, the primary task of which is to influence unemployment. Blau (1987), Evans & Leighton, (1990), Evans & Jovanovic (1989) and Blanchflower & Meyer (1994) also reported the interaction between entrepreneurship and unemployment. Two universally accepted effects of entrepreneurship are Refugee effect and Schumpeter effect. The occupational choice approach suggests that increased unemployment will lead to an increase in start-up activity because the opportunity costs of starting a business have decreased. This effect has been referred to as the 'refugee' effect (Andre, Roy & Ingrid, 2007). The positive effect of entrepreneurship on economic performance has been referred to as the 'Schumpeter' effect. New firms create (new) jobs, leading to a subsequent decrease in unemployment. (Andre, Roy & Ingrid, 2007), this study is also analyzing the interaction of entrepreneurship and unemployment.

Researchers reported that national and regional characteristic i.e. GDP, economic group, Trade policy, Tax system, regulation and monetary policy, labor market, availability of capital, income level etc influence entrepreneurship and unemployment and these factors are

different, in different countries and hence influence entrepreneurship and unemployment in different ways in different countries (Remeikiene & Startiene, 2008). This study is also analyzing that, is entrepreneurship is a generalized solution? Is it universally applicable for all classes of people?

For example, regional characteristics of studies in countries such as Lithuania, Serbia, Czech Republic, Switzerland and Finland found that unemployment in rural areas is considerably higher than in major cities (Aradarenko, Jovičic, 2007; Tervo, 2006; Vetlov & Virbickas, 2006; Dufek, 2003; and Filippini, 1998). Such findings reinforce the perception of this study.

The recognition of interaction between entrepreneurship and unemployment is not sufficient to take in the business and the unemployment rate into the mathematical calculations, it is essential to consider and evaluate the national economic and cultural conditions (Rita & Grazina, 2009). This indicates that for exploring the connection between entrepreneurship and unemployment it is useful to learn the national characteristics.

Researchers also found that demographic factors play an important role in the explanation of interaction between unemployment and entrepreneurship (Rita & Grazina, 2009).

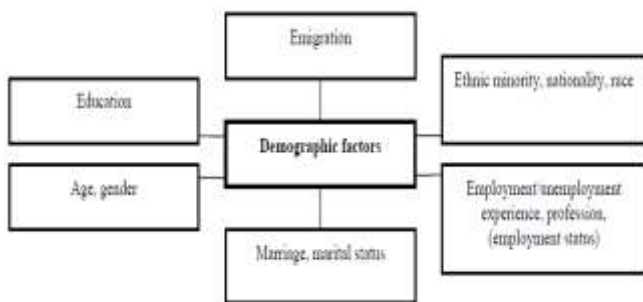


Figure 1. The most important demographic factors and the most often used in empirical business/unemployment studies (Rita Remeikiene & Grazina Startiene, 2009).

In the group of demographic factors, the authors (Georgellis, Sessions & Tsitsianis, 2005; Leoni, Falk, 2008; Meager, 1991; Ritsilä, Tervo, 2002; Colombier, Masclet, 2008; Lin, Picot, Compton, 2000; Carrasco, 1999 and others) identify (un)employment duration, age, occupation, education, gender, marital status, minorities, emigration, and race as one of the most important and most frequently used in research

Higher education positively affects the willingness of unemployed people to start business (Rita Remeikiene & Grazina Startiene, 2009). Young and average age unemployed people prefer to set up their own businesses more than other age groups of the unemployed. This is determined not only by personal reasons, but also by connecting more favorable external conditions for the specific age group, i.e. banks are more flexible in granting loans to the persons of average age because they already have their own equity, more experience/knowledge capital, a wider circle of acquaintances, etc (Rita Remeikiene & Grazina Startiene, 2009). These demographic factors are not same in all the countries, hence entrepreneurship cannot be applied in Pakistan in the same manner as in other countries due to different demographic factors, so demographic factors also raises the same question that, is entrepreneurship is a generalized solution?

In 1981 David Birch uncovered the startling findings from his long term study of U.S. job generation. Regardless of the conventional understanding prevailing at the time, Birch (1981, p. 8) found that, "Whatever else they are doing, large firms are no longer the major providers of new jobs for Americans."

Instead, he discovered that most new jobs emanated from small firms.

In one of the first studies (Gallagher & Stewart, 1986) and (Storey & Johnson, 1987) found results for the United Kingdom, that small enterprises create most of the new jobs. (Konings, 1995), findings were also same and same is the case with United States (Reynolds, 1999), but again, while applying entrepreneurship as a tool to create jobs in Pakistan, one have to consider the above mentioned national and demographic characteristics of Pakistan

Even there is a positive impact of new and small firms on employment generation which has been acknowledged, an important qualification and limitation had to be added about the class of those jobs. Based on the U.S., (Brown, Hamilton & Medoff, 1990) provided systematic empirical evidence indicating that SMEs pay lower wages. Thus, while SMEs are the engine of employment generation, it was not at all clear that the new jobs created were actually better or even at parity. In fact jobs created by small firms were actually inferior in that employee compensation was at lower levels. These findings led some scholars to rethink the merits of promoting entrepreneurship and small business development. If job growth came only at the cost of lower wages (Brown, Hamilton & Medoff, 1990)

Problem Statement

A positive relationship between entrepreneurship and unemployment is though an accepted fact in literature, but there exists no evidence that in this era entrepreneurship has mitigated unemployment in Pakistan effectively. Further, it is fact that all human do not possess same capacities to serve nation as an entrepreneur. Acknowledging these facts, this study intends to rationalize the skewed literature that seems extra bias towards entrepreneurship without realizing that a nation cannot afford utilizing every quality professional as an entrepreneur. As entrepreneurship can only be a solution for specific class of people in a nation, could it be a panacea for all?

Methodology

This is a conceptual cum empirical study based on analyses of concepts using logic and deduction methods. It considered the concepts of entrepreneurship, unemployment and relevant news related to Pakistan as units of analysis. It explored the facts seeking information from a randomly selected 250 new under-graduates from reputed universities in the disciplines of engineering, medicines and management sciences during 2011 within the province of Punjab. It collected information using predefined structured questions by oral interview method from the subjects on their selection of career immediately after graduating. It also explored the reasons for not pursuing towards entrepreneurship in oral discussion with respondents. The study has further relied on its observations of the existing practices for addressing unemployment and HR management in Pakistan for reaching conclusion and contributing recommendations. The study utilized only the frequency distribution for analyzing the trend among subjects towards entrepreneurship as a career after under-graduation.

Findings

Table 1 depicts how many selected subjects in Pakistan preferred getting jobs due to lack of interest and aptitude in entrepreneurship or lack of certainty and security for entrepreneurship in Pakistan or lack of investment for initiating entrepreneurial venture or all of these discovered reasons. 70% of the doctors, 60% of the management scientists and 75% of

engineers preferred seeking jobs. 10 – 20% respondents opted going towards higher education. Only 5 to 10% subjects selected entrepreneurship. The study learnt that subjects that opted entrepreneurship as a career did so due to existing family business. That is how family restriction for joining entrepreneurial family setup on 3 engineers and 5 doctors deprived nation from qualified professionals as the family businesses were not in their relevant domains. These figures depict that in Pakistan yet entrepreneurship is not considered as a first choice career especially among qualified engineers and doctors and even management graduates. Getting a job in public or private sectors in the relevant domain was the predilection of majority of the respondents even in the management science professionals.

Table 1 – Frequency Distribution of Career Choice by Respondents (Freshgraduating Doctors, Engineers and Management Scientists in Pakistan)

Respondent	Job Seekers	Entrepreneurs	Further Education	Total
Fresh graduating Doctors	70	10	20	100
Fresh Graduating Engineers	75	5	20	100
Fresh Graduating Management Scientists	30	5	15	50

Based on observations of the HR management norms and practices, the study found that regular attrition and double shifts working times in certain domains in Pakistan have enabled relevant organization in maintaining regular intake of new staff/officers at mass root level. This positively mitigates unemployment. However organization in Pakistan where retirement age is either late or not regular for other reasons, generation of new vacancies is not regular.

Discussion

This study acknowledges the positive relationship between entrepreneurship and unemployment, its effects and significance for national economy as reported and endorsed by literature (Andre Van Stel, Roy thurik & Ingrid Verheul, 2007). However, it does not find considering entrepreneurship as a universal tool to mitigate unemployment in Pakistan especially in the fields of medicine, engineering and management sciences due to the above mentioned findings. It found that entrepreneurship is not a generalized solution for unemployment. Existing literature also support such finding acknowledging the fact that in the process of new business start ups problems are different in different regions depending on national and regional characteristics and demographic factors (Rita Remeikiene & Grazina Startiene, 2009; Georgellis, Sessions, & Tsitsianis, 2005; Leoni, Falk, 2008; Meager, 1991; Ritsilä, Tervo, 2002; Colombier, Masclet, 2008; Lin, Picot, Compton, 2000 and Carrasco, 1999 and others). Such reports in literature reinforce the perception of this study.

Literature further reports that job generation thorough entrepreneurship has been tremendous throughout the world (Birch, 1981; Gallagher & Stewart, 1986; Storey & Johnson, 1987; Konings, 1995; Audretsch & Fritsch, 1996 and Reynolds, 1999). However, small businesses generated adequate jobs, but with low level compensation (Brown, Hamilton & Medoff, 1990). These facts also discourage doctors, engineers and management scientists in Pakistan accepting such low paying jobs. This study is therefore confident that considering entrepreneurship a panacea for unemployment in

Pakistan will not be rational despite its all merits and significance.

Conclusion

Based on conceptual analyses and empirical findings this study concludes that entrepreneurship is not a generalized solution to unemployment especially in the domains of medicine, engineering and management sciences. Using entrepreneurship as a tool to mitigate unemployment is hence cannot be generalized in Pakistan. It is a myth that entrepreneurship can mitigate unemployment among people of all classes in Pakistan. As majority in Pakistan is not from rich background, they prefers being employed instead of employing others. Family background, aptitudes and investment capacity of the undergraduates dominates their career selection in Pakistan. Majority is inclined towards reputed jobs and entrepreneurship is yet not considered a safe and promising career line due to various reasons.

Therefore, so far considering entrepreneurship a panacea for unemployment in Pakistan is a myth. The study simultaneously acknowledges the benefits and merits that entrepreneurship promises, but it predicts based on its analysis and findings that in Pakistan at least the nation will take another decade in learning the mature and effective use of entrepreneurship and till then people need immediate solution for unemployment.

Recommendations

Entrepreneurship is beneficial but not a panacea to mitigate unemployment in Pakistan especially in the domains of medicine, engineering and management sciences. While ensuring that entrepreneurship is rationally encouraged at national level, government should ensure that adequate vacancies are generated in public and private sectors on annual basis to accommodate qualified undergraduates in all domains. As it is very difficult to implement, this study submits following proposals/recommendations:

1. First, in the public sector organizations of Pakistan the retirement age is 60 years. Officers and workers do not get retired before the age of 60 nevertheless they are competent enough for promotions or not. As result the attrition rate is very slow in the civil public sector of Pakistan which does not provide free hand to public organization to continue recruitment at the mass root level on annual basis. Unlike public sector in the forces of Pakistan recruitment keeps on going on annual pace because of the fact that officers and/or soldiers retire before getting 60 on completing their stipulated tenure in a given rank and not qualifying for the next rank. Same competence cum tenure based retirement model is recommended to be adopted before the age of 60 in the civil sector of Pakistan so that recruitment at entry level can be kept in swing for fresh undergraduates by maintaining attrition of incompetent officers. Retired civil personnel before the age of 60 should be encouraged towards entrepreneurship as they have more resources than the fresh undergraduates for the same.

2. Second there exist certain service sectors in Pakistan where multi shift work approach is applicable, like hospitals, police stations, schools, colleges, railway, bus services, airports etc. Nevertheless, in few schools, hospitals, railway and airports the multiple shifts work approach is already adopted, but still a large portion of service sector can adopt multiple shifts to accommodate more fresh undergraduates mitigating unemployment. The study recommends limiting work hours for the service sector from 9 hours to 6 hours so that in a workday more shifts can be accommodated generating more jobs. Critics

of this approach shall object inflating the cost due to redundant hiring. The study defends its stance requesting give value to intangible services to society more than the depreciable tangible gains.

Future Research

The study has submitted a conclusion with intent to contribute a rationalized significance of entrepreneurship while considering its solution for unemployment. It has further submitted two major recommendations based on analysis and overall observations of the HR practices adopted in Pakistan. Although its conclusion and recommendations are derived through empirical cum observational findings and insights, indeed these invite researchers to investigate further implications of its contributions investing efforts for further knowledge generation.

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