

Full Length Research Paper

Entrepreneurship and human rights: Evidence from a natural experiment

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Entrepreneurship and human rights which comprise two large areas of modern life do not seem to be on talking terms with each other. They appear to inhabit two different worlds with nothing in common, except a bit of antagonism. The view that the perspectives of the two disciplines are incompatible is strengthened by a lack of empirical studies. We utilise the staggered implementation of a human rights awareness and training campaign in central India to identify its effect on the creation of new small businesses. Our estimates indicate that new micro-businesses increased by about five per cent. Similar increases were observed in the investment in new micro-businesses and employment generated by new micro-businesses. We present evidence that this is a causal effect, we find that this increase is not a reversible blip and sustains over a period of time.

Key words: Human rights, entrepreneurship, natural experiment.

INTRODUCTION

Entrepreneurship and human rights have developed rapidly over the last few decades as sub disciplines of management and economics and of law and political science respectively. They have done so with virtually no interaction. While the human rights emphasise fairness, entrepreneurship focuses on efficiency and the optimal use of resources. While scholars in the field of entrepreneurship and human rights talk past each other, the academic disconnect has been reinforced by advocacy groups. The advocates for entrepreneurship in the business world, such as the Chambers of Commerce and the business media belong to the right wing of the political spectrum. On the other hand, the advocates of socio-economic human rights belong to the left wing, as they are mainly concerned with oppressed groups. This ideological division has prevented useful cooperation between these two advocacy groups. The language of 'rights' is not always well received, even among social entrepreneur circles. While entrepreneurs look for opportunities, rights create obligations. And while obligation and opportunity are not mutually exclusive, they are sometimes unwelcome bedfellows.

Despite fundamental disagreements, human rights theory and entrepreneurship share some important ideas

in common, the most important of which is the autonomy of the individual. Since the individual reigns supreme, respect for right to property and efficiency of judicial system are beholden to both groups. Human rights theorists advocate building up and strengthening appropriate institutions to protect rule of law, accountability and good governance; and the entrepreneurship scholars recognise that canalisation of entrepreneurship to productive activities requires the use of the very same institutions. So does access to education, credit, security, due process, infrastructure and public information. Entrepreneurship involves ability and the persistence to turn ideas of products, processes, or services into something real. Too often, people living in societies that do not observe human rights cannot take their business ideas to fruition. Hence, there is a case for both the groups making a common cause. Yet there has been little theoretical or empirical work that connects the two fields. The only conference of note on the subject of human rights and entrepreneurship was a 3-day conference at Fordham University, New York in 2005. The papers were published in *Journal of Asian Economics* in 2006 (Vinod, 2006) and did not attract many citations. Hardly any field studies are available on the subject. This paper

is an attempt at understanding the relationship between human rights and entrepreneurship using micro-level data. This type of study allows for establishing causality more convincingly than cross-country studies (Pande and Udry, 2005). We empirically test whether awareness of human rights promotes entrepreneurship. To the best of our knowledge, this kind of study has not been attempted earlier.

There is no agreed definition of entrepreneur or entrepreneurship. As a historian of business economics Cole (1959) put it: "My own personal experience was that for ten years we ran a research centre in entrepreneurial history; for ten years we tried to define the entrepreneur. We never succeeded. Each of us had some notion of it – what he thought was, for his purposes, a useful definition. And I don't think you're going to get farther than that". More than half a century after Cole's prophecy, scholars generally concur that a common definition of the entrepreneur remains elusive. There has been a tendency to think that innovation equates to entrepreneurship. Perhaps this is owing to Schumpeter (1939), who defined innovation as setting up a new production function and Drucker (1985) who described innovation as the specific instrument of entrepreneurship. Schumpeter and Drucker have been so influential in Economics and Management respectively that the terms innovation and entrepreneurship are now interchangeable for many people. However, conflating the two robs both of their full potential. Gartner (1987) in his review of Drucker's book stated the difference plainly: 'Entrepreneurship is a solution to those situations which need organizing, while innovation is a solution to those situations which need something new'. As it is understood today, entrepreneurship is about organisation creation, regardless of whether it is innovative or not, and innovation is about implementing something new, regardless of whether it is through a newly created organisation (AACSB, 2010). In fact, innovation is not required to form new organizations (Vesper, 1989). There is nothing romantic about entrepreneurship. According to Shane (2008) most start-ups are not innovative and produce the same products as existing businesses; and usually their owners do not claim other competitive advantages.

For the purpose of this paper, entrepreneurship is creation of new businesses; but a few caveats are in order. Baumol (1990) in a famous lucid article argued that entrepreneurs allocate themselves to productive, unproductive or destructive activities. Though Baumol is recognised as one of the prominent economists who gave the entrepreneur a key role in mainstream economic theory and his paper attracted over 1,600 citations, the economists have not followed his terminology. Unproductive and criminal activities which bring positive returns to the individual but not to society are occupational choices, not referred to as entrepreneurship. For example, Acemoglu (1995) assumes that each agent has some talent that can be employed in 'productive activities which we call entrepreneurship' and 'unproductive activities

such as rent-seeking'. Also, mere subsistence-eking out a living through informal self-employment cannot be called entrepreneurship. Martin and Zedello (2004) in their forward to a UN report write: "This report is about walking into the poorest village on market day and seeing entrepreneurs at work. It is about realizing that the poor entrepreneur is an important part of the private sector as the multinational corporation". However, a person in self-employment by necessity rather than by choice is hardly an entrepreneur. As Banerjee and Duflo (2007) warn us, it is important not to 'romanticise' poverty in the name of entrepreneurship: 'If you have few skills and little capital, and especially if you are a woman ... you buy some fruits and vegetables or some plastic toys at the wholesalers and start selling them on the street; you make some extra dosa mix and sell the dosas in front of your house; you collect cow dung and dry it to sell it as a fuel; you attend to one cow and collect the milk. These types of activities are exactly those in which the poor are involved'. Given that they have no money and no one wants to lend to them, the businesses they run are so small that they cannot even fully utilise the family labour available.

THE SETTING

The study area covers large Indian state of Madhya Pradesh in central India with an area of over three hundred thousand square kilometres and a population of over 76 million. Most of the areas of the state are classified as 'industrially backward'. Promoting entrepreneurship has emerged as an important policy tool for regional economic development to the extent that economic development policy has shifted to promoting economic development through entrepreneurship rather than attracting businesses from elsewhere. The federal and state governments operate a large number of schemes to provide advice, training and subsidy to the budding entrepreneurs. Following nationalisation of banks in 1969, for three decades India's government planned and executed the biggest bank expansion programme in the world by opening as many as 30,000 new branches of government-owned banks. Normally whatever is purchased with the loan is hypothecated to the bank and no additional collateral is required. Unlike many African countries burdensome regulation is not a disincentive to starting small business. The World Bank (2004) data included India in the list of top ten reformers in 2003, that is, the countries that made it easier to enforce contracts, obtain credit and close a business¹.

¹ There is no shortage of irksome requirements for starting and running a business even now. In the World Bank's (2011) "Ease of Doing Business" index, India scores particularly badly - 165th out of 183 countries - on ease of starting a business. But most of these regulations do not apply to businesses with up to ten employees.

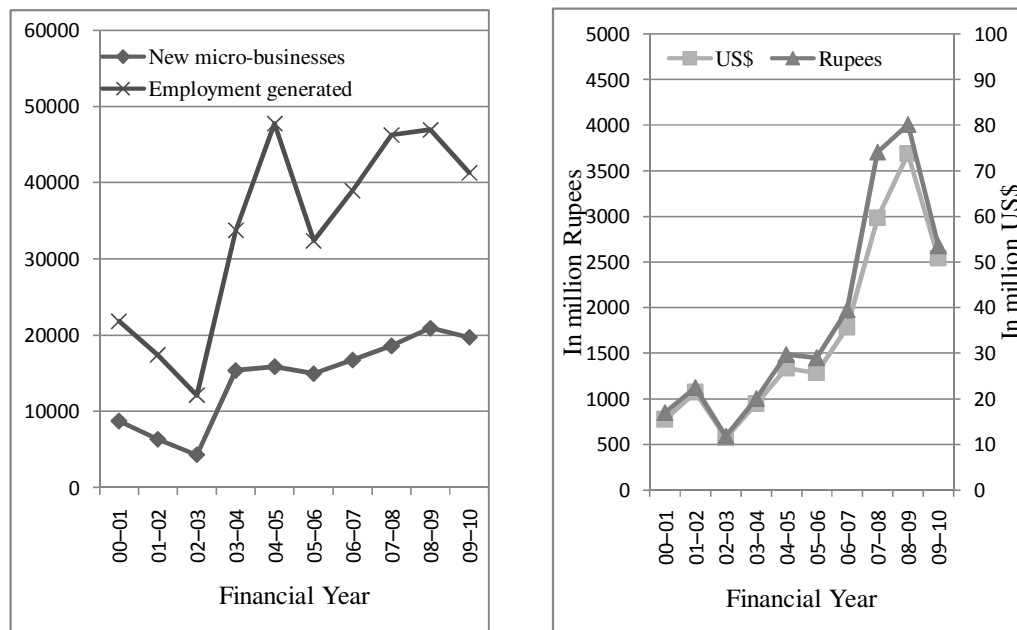


Figure 1. New micro-businesses created, employment generated and investment.

But large scale involvement of government agencies and fiscal incentives like subsidy on investment and sanction of loans with low rates of interest has led to large scale corruption creating a situation where a large number of potential entrepreneurs are denied opportunity to start their businesses. The anecdotal evidence for this denial is very strong. Often newspapers have reported cases where youths have threatened to commit suicide if they are denied loans. More often, the applicants simply give up as they are not equipped to go through the bureaucratic maze. In the preliminary interviews, a large number of persons reported that though they have business ideas, they would prefer to get a salaried job because of the hassle and corruption involved in starting a business.

The human rights awareness and training campaign organised in the state was not specifically targeted at entrepreneurship. The objective was to make people aware that they are right holders rather than passive recipients of charity from the State. The awareness campaign did not seek to mobilise people for change of policy, but to make people aware of the policy and programmes in place and to claim as a matter of right the benefits integral to these programmes which they were not getting due to apathy and corruption in the system. Perseverance as the key to success in any endeavour, especially a new activity was highlighted and the people made aware of various methods of grievance redressal. Under the rights based approach, the permissions and licences required to start a business were not deemed to be a privilege to be obtained after payment of a bribe, but subject to the conditions being met, a matter of right. The same applied to all applicable incentives. The officials

dispensing favours were sensitised to the fact that they are duty bearers. The national and state governments are keen to promote establishment of new businesses. A large number of schemes exist to provide assistance and training and subsidy to the budding entrepreneurs. The objective of the human rights awareness campaign was not promotion of entrepreneurship. The objective was to make people aware that they are right holders rather than passive recipients of charity from the State. The campaign also included training to duty bearers. A strong message of intolerance of corruption was a part of the campaign.

METHODOLOGY

We use the whole universe of data from administrative records instead of the employment survey. This not only avoids the interpretation and measurement error issues of the main outcome variables but also avoids the problem of the lack of representativeness at the district level of the employment surveys¹. The details of new micro-businesses established in each quarter were ascertained from the district trade and industry centres of each district. The details are periodically submitted by these centres to the directorate at the state level and are open to public scrutiny. Year-wise consolidated data for the state are shown in Figure 1.

This paper uses cross-district and cross-time variation in the human rights campaign to determine its effect. The fact that the human rights awareness campaign could not be organised simultaneously in all the districts of the state makes it possible to control for district specific and time specific effects. The data in the balanced panel covers all 50 districts of the state for quarters from the second quarter of 2007 to the first quarter of 2010. The

¹ Micro level employment data is available only through a quinquennial survey organised by the federal government’s sample survey organisation.

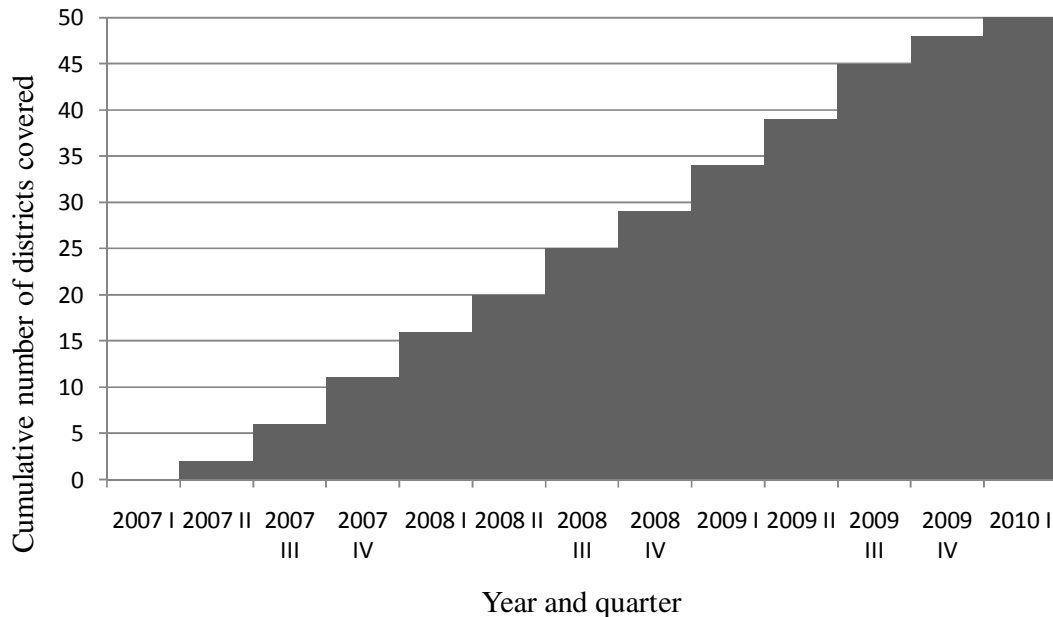


Figure 2. Coverage of districts by human rights awareness and training campaign.

coverage of the campaign spread over a period of three years. This short period of time avoids the situation of the districts becoming less comparable. The coverage over time is shown in Figure 2.

The required assumption for the estimations to be valid is that the changes in the three outcome variables would not have differed systematically between the treatment¹ districts and the control districts if the human rights awareness campaign had not occurred. While this assumption is essentially untestable, it is likely to hold if there are no initial systematic differences in trends. That there are no initial systematic differences has been verified as explained in the next section.

IDENTIFICATION STRATEGY

The impact of the human rights awareness campaign is thus identified using cross-district differences in the campaign dummy over time. The identification strategy is valid as long as the changes in outcome variable, that is, the creation of new formal businesses, would be similar across districts in the absence of human rights campaign. In other words, it is important to see whether the timing of campaign had anything to do with any prior or ongoing changes in creation of new businesses. We employed three methods for checking for any endogeneity. First, we interviewed the organisers who stated that their intention was to bring human rights awareness first to the 'backward' districts². However, the more important factor in sequencing was logistics. The programme of implementation had nothing to do with the changes in the creation of new businesses in

a particular district in the past or the expectation thereof in the future. To check whether the districts are indeed comparable from this point of view, we split our data into two parts – 25 districts with early treatment, that, the districts where the campaign was held earlier and 25 districts with late treatment and look at changes in establishment of new businesses. We computed changes in three variables over a period of five years between the financial year 2001-2002 (April 2001 to March 2002) and the financial year 2006-2007. The first three columns of Table 1 report the annualised changes in the number of businesses created, new investment (in US\$) in these businesses and new employment generated in these businesses. The comparison shows that the difference between the two groups is statistically insignificant.

To further examine the pattern of timing of the campaign, we regressed each of these three variables on the quarter of the campaign. The results are reported in the last column of Table 2. There is no statistically significant trend for changes in any of these variables. Overall, Columns 3 and 4 show that the changes in the variables are neither significantly different between early and late treatment districts nor do they follow any specific pattern of implementation of campaign over time. The fact that the districts were not randomly selected does not invalidate identification strategy as the timing of the campaign in various districts was not related to the lagged values or expected future values of outcome variables of interest. The identification strategy relies on the changes over time being similar across districts; the three checks described above validate the strategy.

RESULTS

According to the identification strategy described in the previously, we obtain the main results by running the following regression with ordinary least squares:

$$y_{it} = \alpha + \beta_i + \gamma_t + \pi HR_{it} + \varepsilon_{it}$$

³ The word treatment has bio-medical connotations and looks inappropriate in socio-economic settings. However, it is commonly used along with other inappropriate words like regression.

⁴ India's statistical system makes GDP available at State level but not at district level. Various correlates or proxies of economic prosperity for which data at the district level is available are used by researchers. In the instant case 'backwardness' implied low literacy, especially female literacy and high percentage of disadvantaged castes and tribes in the population, the data for which were available from 2001 census.

Table 1. Changes in district characteristics between the years 01-02 and 06-07.

Changes	Early treatment average	Late treatment average	Difference in averages	Coefficient on quarter of treatment
Outcome variable				
New businesses	0.116 (0.045)	0.112 (0.042)	0.004 (0.062)	0.001 (0.016)
Employment	0.083 (0.014)	0.081 (0.013)	0.002 (0.019)	0.020 (0.021)
Investment	0.112 (0.019)	0.114 (0.022)	-0.002 (0.029)	0.010 (0.006)
Background variable				
Primary education	0.046 (0.015)	0.051 (0.014)	-0.005 (0.021)	-0.011 (0.008)
Secondary education	0.023 (0.013)	0.019 (0.014)	0.004 (0.019)	0.009 (0.007)
Vocational education	0.060 (0.017)	0.054 (0.015)	0.006 (0.023)	0.019 (0.020)
Tertiary education	0.055 (0.018)	0.052 (0.015)	0.003 (0.024)	0.009 (0.005)
Bank branches	0.038 (0.016)	0.030 (0.014)	0.003 (0.021)	0.012 (0.007)
Observations	25	25	50	50

None of the coefficients (standard errors in parentheses) are significant even at 10% significance level.

Table 2. Impact of Human rights campaign on entrepreneurship.

Background variable	Dependent variable					
	New business		Investment		Employment	
	(1)	(2)	(3)	(4)	(5)	(6)
HR dummy	0.0044*** (0.0012)	0.0041*** (0.0008)	0.0155** (0.0064)	0.0141*** (0.0048)	0.0100** (0.0049)	0.0087*** (0.0024)
Literacy		0.0089*** (0.0033)		0.0234*** (0.067)		0.0191** (0.078)
SC		-0.0078* (0.0042)		-0.0247* (0.0129)		-0.0206* (0.0113)
ST		-0.0095** (0.0047)		-0.0298* (0.0160)		-0.0201* (0.0111)
Bank branches		0.0162** (0.0080)		0.0581*** (0.0205)		0.0356** (0.0169)
History		0.019 (0.020)		0.073 (0.109)		0.039 (0.053)
Adjusted R-squared	0.018	0.095	0.009	0.076	0.014	0.071
Observations	600	600	600	600	600	600

Standard errors in parentheses. *significant at 10% level; **significant at 5% level; ***significant at 1% level.

where the subscript *i* denotes the district and *t* denotes quarters. This regression includes district fixed effects β_i and quarter fixed effects γ_t . The variable HR_{it} is the human rights dummy and, for each district, it is equal to one for the quarter in which the reform was implemented and for all following quarters. We run the regression without and with the background variables. The standard errors of the regressions are clustered at the utility level. As explained in Bertrand et al. (2004), clustering at this level helps to prevent the problem of serial correlation in difference-in-difference estimates which use a large number of time periods. Table 2 shows the main results of this paper.

The regression above estimates only the average effect of the human rights awareness and training campaign over the post-treatment period. However, it is also important to check how this effect looks over time. Figure 3 shows a plot of the coefficients of the following regression:

$$y_{it} = \alpha + \beta_i + \gamma_t + \sum \delta_l Q_{li} + \epsilon_{it}$$

where Q_l is a set of dummy variables for lag and lead quarters relative to the time of implementation in a given municipality. For example, Q_{-7} is equal to one for the last quarter before the reform was implemented. Since the implementation of the reform was phased in over time and since all the districts were covered by 2010-1, the outcome data for all lags and leads for all districts is not observed. For this reason, the regression above is limited to observations that fall between Q_{-7} and Q_{+8} only. Q_{-8} also the omitted quarter in the regression, to which all other quarters are being compared. Figure 3 shows that between Quarter-8 and Quarter-1, the estimated differences tend to be close to zero. After the human rights awareness and training campaign, the differences become positive. Since the differences consistently remain positive after Q_0 , we conclude that the effect of human rights campaign remains significantly positive at

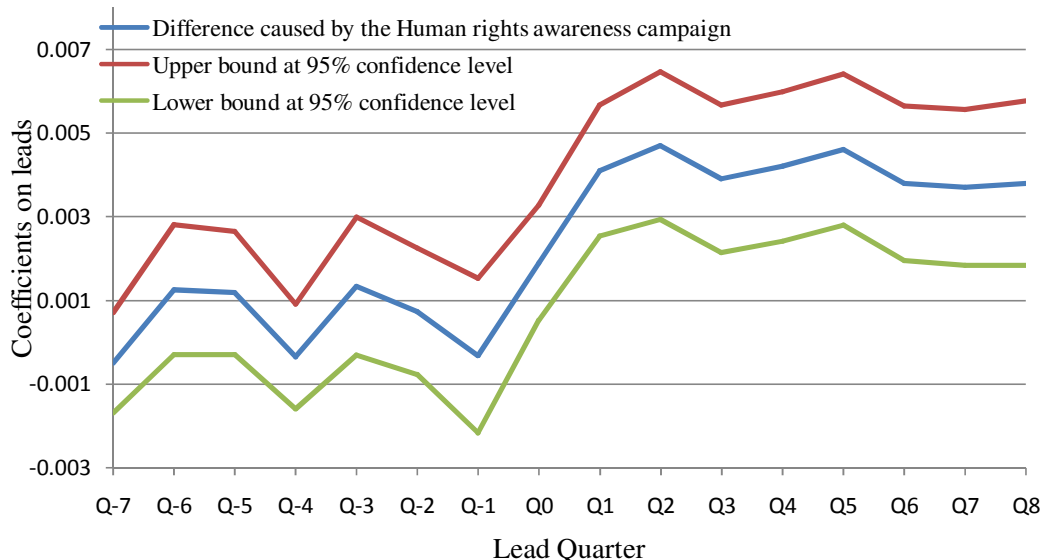


Figure 3. New micro-business creation coefficients on relative quarters.

least in the medium term.

Conclusion

With a backdrop of a world moving towards a more humane, sustainable and inclusive society, development policy is seeing a marked shift towards improving development strategies and processes of the development schema. The time is now ripe for acceptance of human rights approach to development of entrepreneurship as the human rights and entrepreneurship share a preoccupation not only with necessary outcomes for improving the lives of the people but also with better processes. Policy makers as also practitioners are increasingly focusing on the processes of development. Being people centred, they reflect a fundamental concern with institutions, policies and processes as being participatory and comprehensive in coverage, respecting the agency of all individuals.

Human rights contribute to entrepreneurship by guaranteeing a protected space where the elite cannot capture development processes, policies and programmes. The human rights framework also introduces the important idea that certain actors have duties to facilitate and foster entrepreneurship.

There are two main rationales for human rights based approaches: (a) the intrinsic rationale, acknowledging that it is the right approach, morally and legally; and (b) the instrumental rationale, recognising that this approach leads to better and more sustainable human development outcomes. In practice, the reason for pursuing a human rights based approach is usually a blend of these two. This study provides empirical evidence that human rights awareness and training campaigns, even when not

focused on entrepreneurship, would help promotion of entrepreneurship. It is time to integrate human rights more fully in the language of the policy makers and practitioners. This study is indicative of the fact that such an alignment is not only feasible but also desirable.

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