

REVIEW REPORT ON ENTREPRENEURISM AND ITS EFFECT ON ECONOMIC GROWTH

Abstract:

Entrepreneurs are no doubt catalysts of change and innovation. Entrepreneurship stems from the need of fulfilling a gap that exists in the market and this sets the entire process of development in motion. Reaching development as a key aim necessitates, the best possible way of doing that is to use all country's resources, particularly its human capital, which is regarded as one of its most valuable assets. The main aim of this study is to illuminate the relation between entrepreneurship as an intellectual capital and economic growth. The outcomes of research indicate that entrepreneurship has positive and significant effect on economic growth.

Introduction:

Entrepreneurs are considered as national assets as they cultivate, motivate and generate to every possible extent opportunity for the people. Great entrepreneurs can change the way we think, work, and live. Along with giving their business a boom, they also stimulate other businesses, which are in one way or the other dependent on them. Entrepreneurs support new ventures in the market and create employment opportunities. According to a report, in 2019, entrepreneurship in the US alone generated 1.6 million job opportunities. Today's growth does not rely necessarily on existence

of abundant natural resources or existence of given social political system; but depends on human sources. The main factor in economic developments arises from mind. This era is known for information age and globalization and faces innovative consequences, quick changes and transformations in human interchanges and severs competition in business. In such atmosphere entrepreneurship is an important factor for growth and development.

The aim of this paper, thus, is studying the effect of entrepreneurship on economic growth. To do this, in addition to entrepreneurship, the effect of trade liberty, the proportion of government expenditure to gross domestic production, the rate of enrolment in schools, Gross Domestic Production, and inflation from economic growth are also examined.

Definition of entrepreneur:

The word entrepreneur first appeared in Cantillon's texts. He introduced three levels of economic factors: owners, entrepreneurs and workers. To him, entrepreneur is a person who practices involvement with business encountering lack of definiteness. Menger, one of Austrian's school founders, considered this differentiation, too. Initially, he considers entrepreneur as an individual who combines production factors and introduces entrepreneur based on this personage. Herbert and Link (1989) suggest the following definition for who entrepreneur is and what he does: "Entrepreneur is a responsible person for making accurate decisions which influence environment, using commodity, resources or institution".

Most prominent roles entrepreneur are:

- A person who accepts unreliable risks;
- Fund provider;

- Innovative;
- Decision maker;
- Industrial leader;
- Manager or supervisor;
- Organizer of economic resources;
- Owner of an enterprise;
- Employer of production factor;
- contractor;
- Allocator of resources among alternative uses;
- A person who is aware of the onset of a new business.

Entrepreneurship from Schumpeter's view:

According to Schumpeter, an entrepreneur is one who perceives the opportunities to innovate, i.e., to carry out new combinations or enterprise. Innovation involves problem of new combination leading to innovation covers the following five cases;

1. The introduction of new goods that is the one with which consumers are not yet familiar, of a new quality.
2. The introduction of new method of production, that is yet to be tested by experience in the branch of manufacture concerned which need, of means, to be founded upon a scientifically new discovery & can also exist in a new way of handling a commodity commercially.
3. The opening of a new market that is a market into which the particular branch of manufacture of the country has not previously entered, whether or not this market has existed before.
4. The conquest of a new source of supply of a raw material or semi-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created.

5. The carrying out of the new organization of any industry like the creation of monopoly position through fructification or breaking up of a monopoly position.

Entrepreneurs are motivated intellectual class of people & the prime movers of economic development. They foresee the potential opportunity & constantly try to exploit it. They are distinguished from rest of the population in use of their latent capacity to perceive & mobilize resources. Thus, one of the most important functions of an entrepreneur is to mobilize such resources which are known as 5Ms in modern management, ie, man, material, money, machine and method etc. can be properly coordinated by the entrepreneur to maximize profit from his own venture thereby leading to economic growth. The entrepreneurial activity represents a break from the routine or a circular flow or a tendency equilibrium.

In Schumpeter thinking system, supplying entrepreneurship is the determining factor of final rate of economic growth.

Entrepreneurship & economic growth:

(Wong) investigated the interaction among innovation and economic development, considering entrepreneurial behaviour, using data of 10 developed countries over a time period 2001-2009. Many hypotheses were tested considering 3 equations, and the techniques of both generalized least square (GLS) and panel least square techniques were employed. The results revealed that innovation have an important role in the cycle” of development of the economy and the entrepreneurs are medium for developing new ideas to boost the operation of businesses and to achieve higher profits. (Wong et al.) used a panel of United States metropolitan areas over a time-period of 1993 to 2002. They found that an increase in the provision of venture capital” significantly affects the establishment of new enterprises, employment and contribute to economic growth.

Koo and Kim (2009) established a model of economic growth. The rate of economic growth is the function of the growth rate of economically useful

local knowledge function of R&D, university research, social capital, entrepreneurship, human capital and the industry's structure. They found that entrepreneurship has a significant role in regional growth.

Babar Hussain, Kifayat Ullah , Gulnaz Hameed, Muhammad Usman and Kashuf Ayoub (2021) explores a new stream of research shedding light on the influence of entrepreneurship on economic growth by exploring the role of formal (government effectiveness & political stability) and informal (control of corruption & freedom to trade internationally) institutions. Two Step System Generalized Method of Moments (SGMM) was used to analyze the unbalanced panel dataset of thirty-six developed and developing countries for the time period 2002-2017. The results of their study showed that Total Early-Stage Entrepreneurial Activity, Opportunity Entrepreneurship, Employer's Total, Government Effectiveness, Freedom to Trade Internationally, Control of Corruption, Political Stability, Gross Capital Formation, Human Capital, National savings, and Trade Openness have positive while Inflation and Population Growth have a negative impact on economic growth in the sample countries.

In 2014 Seyed Morteza Afghah , Ali Raoofi , Simin Hoshyar of University of Shahid Chamran studied the relation between entrepreneurship as a intellectual capital and economic growth in 50 selected countries including Iran during the years 2004 and 2012, Their results shows that, a unit increase in new entrepreneurship will result in a 0.047% of rise in economic growth. Also, the effects of net school enrollment and trade openness on economic growth was obtained as 0.007 and 0.109 respectively. The result of their analysis is shown below.

Table 5: Fixed Effect Model estimation			
Variable	coefficient	T Stat.	Prob.
proportion of government expenditure	-0.015089	-1.883835	0.0604
school enrollment	0.007130	11.33907	0.0000
Inflation	-0.078465	-3.515675	0.0000
Entrepreneurship	0.047744	4.410179	0.0000
trade openness	0.109231	12.59741	0.0000
Intercept	-5.040564	-5.892922	0.0000
\bar{R}^2	0.781916		
F	22.90662		0.0000

Xiaoyan Huang and Yuli Chen from university of Macau , China employs multiple regression models to assess the impact of entrepreneurship on economic growth, considering the moderation effect of the city context. Their data are from the 2003–2017 yearbooks of Zhaoqing, Shantou and Meizhou (three cities with distinct cultural and geographic features in Guangdong, China). they concluded that the three cities' GDPs highly rely on traditional factors of production (i.e., government spending, labor and fixed and financial capital) rather than entrepreneurship and the city context of Meizhou is relatively unsupportive of its entrepreneurship contributing to the GDP, in comparison with that of Zhaoqing and Shantou.

The result of their research are shown below.

	Short Form	GDP (100 Million Yuan)	Private Enterprises Ratio	Private Employment Ratio	Increased Enterprise Ratio	Industrial R&D Ratio	Fixed Capital	Government Spending	Labor	Deposits	Loans
	Variable	Y	X ₁	X ₂	X ₃	X ₄	X ₅	X ₆	X ₇	X ₈	X ₉
	Obs.	15	15	15	15	15	15	15	15	15	15
Mean	ZQ	1170.590	6132.333	0.134	2.920	0.005	683.344	139.639	213.970	1143.688	724.963
	ST	1246.993	10,971.000	3.895	0.002	6.776	626.404	147.911	215.618	1907.485	769.994
	MZ	623.745	7014.867	0.118	4.650	0.002	276.198	167.357	211.738	958.773	430.419
Std. Dev.	ZQ	661.845	2858.352	0.061	5.911	0.003	488.110	89.737	7.371	616.987	446.660
	ST	577.674	4097.959	5.907	0.001	5.121	588.795	96.778	29.395	854.117	368.520
	MZ	279.404	4260.679	0.044	6.432	0.001	227.622	130.248	2.422	542.376	258.963
Min	ZQ	328.301	1650.000	0.064	−16.234	0.002	114.660	31.900	193.860	392.660	232.129
	ST	498.425	5724.000	−12.960	0.001	0.554	119.240	44.540	163.490	802.430	421.364
	MZ	238.382	2476.000	0.041	−10.749	0.000	78.790	38.540	208.068	360.070	204.785
Max	ZQ	2110.005	10,565.000	0.280	12.902	0.016	1497.550	271.154	221.306	2259.760	1501.964
	ST	2350.975	18,639.000	16.427	0.005	15.427	2006.400	331.633	239.757	3341.599	1551.715
	MZ	1075.425	16,901.000	0.177	15.985	0.004	806.770	395.175	216.547	2014.785	984.543

Table 3. Regression results of Model 1 and Model 2.

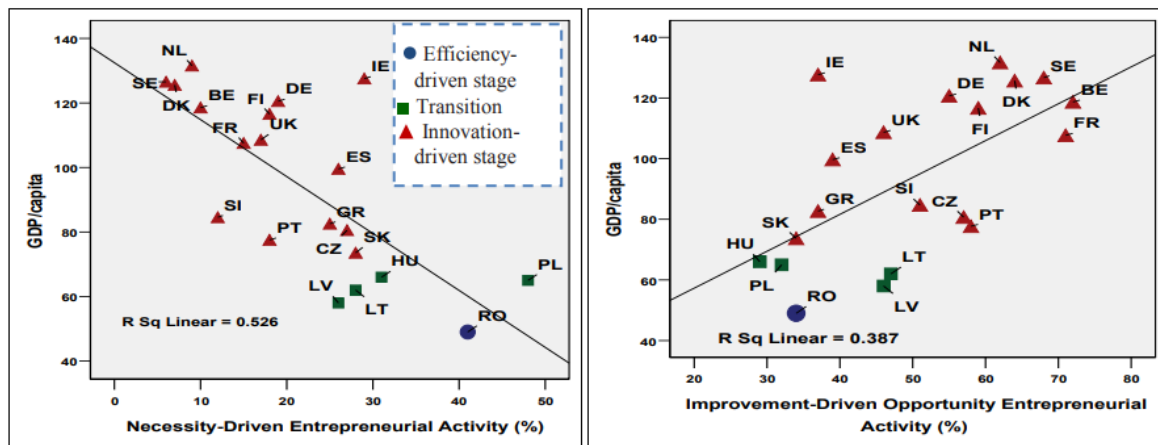
Dependent Variable: GDP				
Variable	Model 1			Model 2
	ZQ	ST	MZ	ZQ + ST + MZ
Constant	145.34 (31.90)	108.71 (41.79)	1808.16 (624.68)	−747.03 (194.32)
Private enterprises (X ₁)				
Private employment ratio (X ₂)			2641.86 *** (359.43)	
Increased enterprise ratio (X ₃)				
Industrial R&D ratio (X ₄)				
Fixed capital (X ₅)		0.24 *** (0.05)		
Government spending (X ₆)	7.34 *** (0.19)			
Labor (X ₇)			−8.56 ** (2.98)	4.39 *** (0.97)

Dependent Variable: GDP				
Variable	Model 1			Model 2
	ZQ	ST	MZ	ZQ + ST + MZ
Deposits (X ₈)		0.52 *** (0.04)	0.33 *** (0.03)	
Loans (X ₉)				1.35 *** (0.04)
ZQ (D ₁)				
ST (D ₂)				
MZ (D ₃)				
Interaction between entrepreneurship (X ₁ , X ₂ , X ₃ , X ₄) and city dummy (D ₁ , D ₂ , D ₃)(X * D)				-0.02 *** (0.00) X ₁ * D ₃
Adj. R ²	0.99	0.99	0.99	0.97
Obs.	15	15	15	45

Here , negative coefficient of the interaction term (between the number of private enterprises and MZ) suggests that the number of private enterprises in MZ contributes slightly less to its GDP than those in ZQ and ST.

Audretsch in 2006 speculated production function through a sample in Germany in 1990. They calculated that there is a positive relation between entrepreneurship, capital and local economic growth. Further, klepper et al 2007 concluded a positive relation between the rate of self employment and economic growth using data of the World Bank. Theoretically, there is evidence that shows not only entrepreneurship eradicates employment, but also unemployment itself increases the level of unemployment.

In 2012 Szabo K. Zsuzsannaa, Emilia Hermana analyze the relation between entrepreneurship, innovative entrepreneurship and economic development in EU. ,their study revealed there is a positive correlation Spearman correlation coefficient= +0,781 between the level of competitiveness expressed by GCI and economic development GDP/capita, in EU. Improvement-Driven Opportunity Entrepreneurial Activity indicator calculated as percentage of those involved in TEA who claim to be driven by opportunity as opposed to finding no other option for work a positive correlation Spearman correlation coefficient=+0.596.



Source: Own calculations based on data provided by Eurostat and The Global Entrepreneurship Monitor Report (2012)

Result and conclusions:

The literature of several articles about the effect of entrepreneurship on economic growth have been reviewed most of them suggest that there is a positive and significant relationship between entrepreneurship and economic growth. However other conventional elements such as literacy rate, freedom to trade internationally, control of corruption, political stability, gross capital formation, human capital, national savings, and trade openness are also key factors in economic growth. The effect of inflation on economic growth was negative because by increasing inflation, production sector would be harmed which is an obstacle to economic growth.

Finally, I would like to conclude that government policies that promote innovative entrepreneurship, reduces inflammation & promote education must be encouraged.

“The government policy in the areas of science, education, intellectual property and entrepreneurship can be instrumental in

fostering the competitive market economy of the 21st century "UN, 2012

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