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The Role of Entrepreneurship in Spurring Economic Growth

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ABSTRACT

Entrepreneurship is considered as an indispensable element to stimulate economic growth. It not only increases production and gross domestic product but also prompts innovation, employment, wealth creation, standard of living and assists in overall development of the nation. Contrary to general notion, the impact of entrepreneurship on economic growth is not uniform throughout the world. Scholars have expressed different opinions about the impact of entrepreneurship on economic growth in developed and developing countries. Researchers have further opined that stages of economic development and other factors also affect the economic growth of the nations. The purpose of our study is to examine the role of entrepreneurship in economic growth of the country. Taking into consideration the available literature, an attempt has been made to find out the effects of entrepreneurship on economic growth.

KEYWORDS: Entrepreneurship, Conceptual Framework, Economic Growth

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INTRODUCTION

Entrepreneurship contributes abundantly to employment generation, gross domestic product, exports, emergence of new innovations, and incitement of competitiveness. It is acknowledged as an essential driver of economic growth. Entrepreneurship has long been considered an important mechanism of economic development (Schumpeter¹, 1961). The role of entrepreneurship in arousing economic growth is a debatable topic in existing literature (Carree, & Thurik², 2010). Nonetheless, empirical studies on the impact of entrepreneurship on economic growth witnessed diverse responses (Stam³ 2008). The wide consensus among the economists is that entrepreneurship affects economic growth and development (Ács, Autio, & Szerb⁴, 2014).

ROLE OF ENTREPRENEURSHIP

The entrepreneurship is a dynamic process which plays an important role in the economic growth and development of a country. The entrepreneurship and entrepreneurs are considered the key drivers in the development of the nations. The major roles played by the entrepreneurs in the economic growth of a nation are discussed as follows.

- ***Capital formation***

Entrepreneurs promote capital formation by establishing the business and pooling the idle savings of public. They invest their own resources, borrowed resources and attract capital from investors. This kind of pooled capital leads to value addition and creation of wealth, which is the basic imperative for the industrial and economic growth.

- ***Employment generation***

Unemployment is one of the biggest problems of every country especially the developing nations. Entrepreneurs play a major role in reducing this problem by providing employment to the unemployed on large scale, which leads to generation and distribution of income. With the passage of time these enterprises provide direct and indirect employment opportunities to more people, which is one of the goals of economic development.

- ***Increase in gross national product***

Entrepreneurs exert continuously to discover and exploit opportunities, generate capital, employ skilled and unskilled labour to produce new products and services. This production of new goods and

services contribute to increase in gross national product as well as per capita income of the people leading to economic growth of a country.

- ***Balanced regional development***

Entrepreneurship promotes balanced regional development by establishing industries in backward and less developed areas thereby remove regional disparities. The policy of the government encourages entrepreneurs to start entrepreneurial activity in these areas which in turn prompts to other public benefits like development of roads, banks, transportation system, communication, education etc.

- ***Encourages innovation***

Entrepreneurship encourages innovation by creative thinking, adopting new technology, adding value to an existing product thereby makes substantial changes in society. In this era of cut throat competition, an entrepreneur has to embrace innovation in order to survive and maximize the profits which increases production and contributes to economic growth.

- ***Improvement in standard of living***

Entrepreneurs not only mobilize the resources, create jobs, increase the production but they also improve the standard of living of people in a community. They develop and employ innovation that brings the changes in the quality of the products and reduces cost of production which leads to improvements in the quality of life of the customers, employees and other stakeholders.

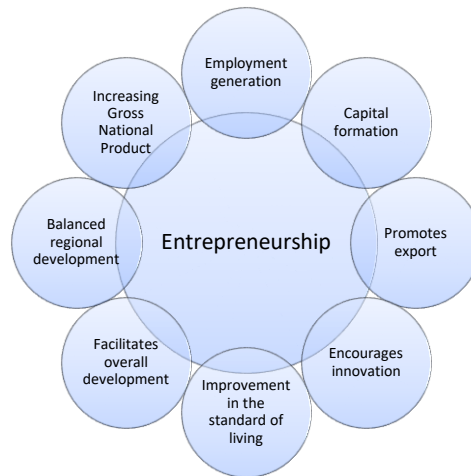
- ***Promotes exports***

Entrepreneurship helps to maintain economic self-reliance of the country by promoting exports. It not only expands business by providing access to international market and latest technology but also brings in scarce foreign currency for the country. This entrepreneurial activity is critical to ensure the economic independence and growth of the country.

- ***Facilitates overall development***

Entrepreneurship has been acknowledged as a pertinent catalyst of economic growth of the country. The process of industrialization starts with the establishment of an entrepreneurial unit. The unit will require raw materials and other inputs which will create demand for other supplying units, the output of this unit may be demanded by some other units. This result in chain reaction, the entrepreneurs multiply their entrepreneurial activities which lead to overall development of an area.

Figure 1: Role of Entrepreneurship



LITERATURE REVIEW

There are several studies in the literature related to the impact of entrepreneurship on economic growth. It is often suggested that entrepreneurship is essential to generate economic growth. Holcombe⁵ (1998) claimed “the engine of economic growth is the entrepreneur”. Dejardin⁶, (2000) opined “the more entrepreneurs there are in an economy the faster it will grow”. Entrepreneurship contributes in economic growth in different ways by job creation, product enhancement, increased competition, innovation, diversification, knowledge spillovers (Audretsch & Keilbach⁷, 2004; Van Praag & Versloot⁸, 2007; Van Stel et al⁹, 2005; Wong et al¹⁰, 2005). Caree and Thurik¹¹ (1998), examined the share of small firms and its effect on industry output growth, which established positive effects between the two variables.

The other researchers (Bosma et al¹², 2009; Sautet¹³, 2013; Gries & Naudé¹⁴, 2010;) explored that the ramification of entrepreneurship on economic growth differs pursuant to its stage of economic development. Sternberg & Wennekers¹⁵ (2005) and Valliere & Peterson¹⁶ (2009) discovered that the impact of entrepreneurship on an economy’s growth may not be persistent in developed and developing countries. It has been depicted under the GEM project that greater the poverty, greater will be the level of necessity based entrepreneurship. The share of necessity entrepreneurship decreases with the increase in level of development of a nation; consequently the share of opportunity entrepreneurship increases (Wennekers et al¹⁷, 2010).

Sabella et al¹⁸. (2014) found in another study conducted in Palestine that entrepreneurship has a non-

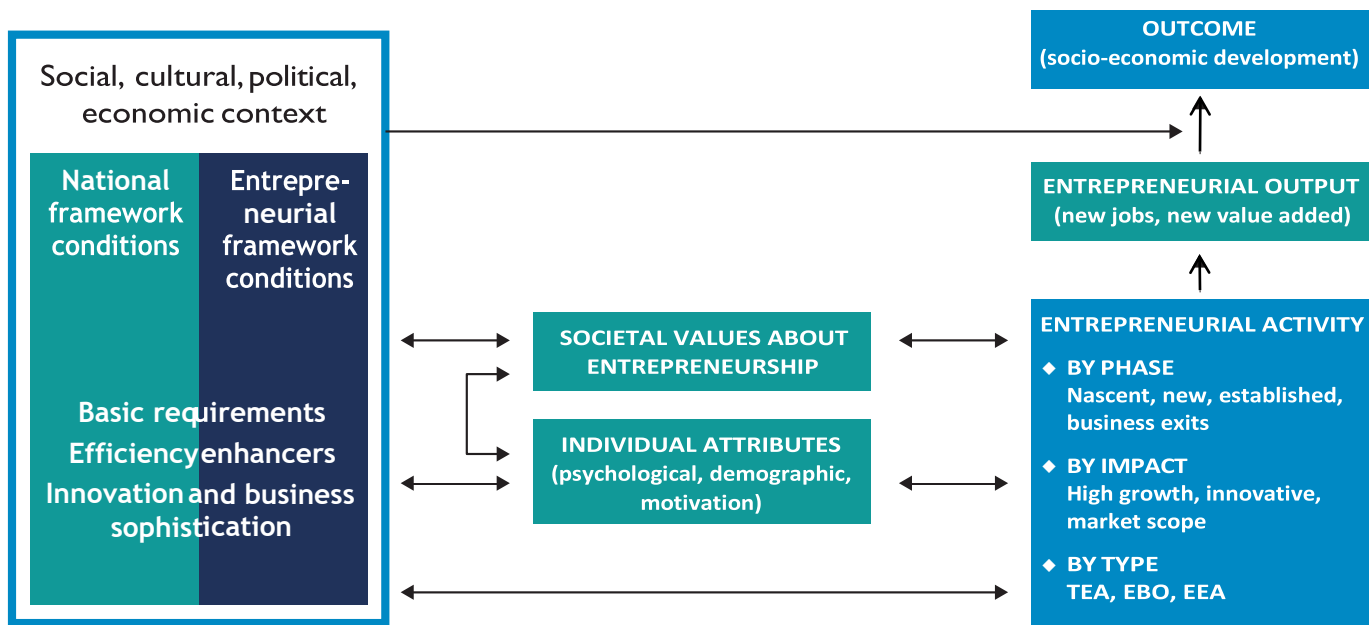
significant relationship with the growth rate of gross domestic product.

Another group of researchers (Bosma et al¹⁹., 2018;Acs et al²⁰., 2008; Sobel²¹, 2008) argued that pro-market institutions encourage productive entrepreneurship and discourage unproductive entrepreneurship resulting in economic growth. Institutional context is also one of the factors which affect the fostering of entrepreneurship and consequently economic growth (Bartlett and Popovski²², 2015). Urbano & Alvarez²³,(2014) revealed that pro market institutions lead to higher rates of entrepreneurial entry which translates into greater economic growth.

The Conceptual Framework

The contribution of entrepreneurship for the growth of the economy is recognized by GEM²⁴ with longitudinal studies and detailed analyses of entrepreneurial exertion and attitudes. The GEM survey was designed to find out the interdependency between entrepreneurship and economic development, basically to discover factors related to entrepreneurship ecosystem, societal values, personal attributes that prompt entrepreneurial activity and to provide a pulpit for gauging the effects of entrepreneurial activity on economic growth in order to determine the policy implication for fostering entrepreneurship in various economies.

Figure 2: The GEM conceptual framework



Source: Global Entrepreneurship Monitor 2019-2020 Global Report

The GEM²⁴ conceptual framework evolves from the essential assumption that economic growth is the outcome of the personal competence of individuals to find out the opportunities and exploit them to achieve the entrepreneurial initiatives. This process requires individuals' decisions that are influenced by various environmental factors. GEM conceptual framework depicts (Figure 2) the main components and relationships of entrepreneurial process. The entrepreneurial activity is divided among variety of entrepreneurs by phase, impact and type, which is affected by social values, individual attributes and also by social, cultural, political & economic context. GEM illustrates the pro-market institutions as the entrepreneurial framework conditions that prompt entrepreneurship activity. The behavior of entrepreneurs and decision making is determined on the basis of institutional conditions and other related factors. The process ultimately creates added value and jobs. The conceptual framework gets potential from GEM surveys by discovering those factors that affect entrepreneurial activity, providing essential policy implications for entrepreneurs, policymakers and other stakeholders.

RESULTS AND DISCUSSION

Policy makers and academicians acknowledge that the entrepreneurs and the variety of businesses started by them play a pivotal role in the growth and development of the economy. The development phase of the economy determines the economic growth. This statement asserts that level of economic development ascertains the capability of entrepreneurship to contribute in the economic growth (Sautet¹³, 2013; Van Stel et al⁸., 2005) According to World Economic Forum (WEF) the economies are classified by economic development level into three phases. Porter²⁵ (1990) also defines competitiveness according to three phases: (1) Factor-driven phase, (2) Efficiency-driven phase, and (3) Innovation-driven phase. The factor-driven phase is subjugated by subsistence agriculture and extraction businesses, with great dependence on natural resources and labour. Basically, factor-driven economies do not innovate or create knowledge, which implies narrow effects on economic growth. In the second phase i.e. efficiency-driven phase, an economy becomes more competitive with technological developments, updated production processes, educated workforce, and better quality of the products. Notably, during this stage, there is a transition from self-employment to wage-employment due to the substitution between capital and labour, which increases returns. As development accelerates into third phase i.e. innovation-driven phase, the service sector expands and businesses become more knowledge-intensive, which provide more opportunities for entrepreneurship (Acs et al.²⁰, 2008). Moreover the rate of returns increases owing to improvements in information technology (Jorgenson²⁶, 2001). On the basis

of these perceptions, it is assumed that developed countries, which are basically in the innovation-driven phase, have higher rates of high growth entrepreneurship. This finding that the innovative activity drives to more economic growth (Mueller²⁷, 2007), propounds that entrepreneurship is positively related to economic growth in developed countries. On the other hand, developing countries generally are in the factor driven stage or the efficiency driven stage, which are likely to have higher rates of subsistence or necessity entrepreneurship. Necessity entrepreneurship is generated from lack of employment options, mainly to earn livelihood which has limited effects on economic growth (Sternberg & Wennekers¹⁵, 2005). Moreover, institutional support to entrepreneurs like training, finance, marketing, technology, entrepreneurship development programmes, government policies, information and consultancy is a massive advantage for the growth of entrepreneurship (Ilahi S.²⁸, 2014). The developed countries may get the benefit of various forms of institutional support while these supports may not be available properly in developing countries. Notably, entrepreneurs in developed countries may be more innovative, updated, positive and focused contributing to gross domestic product.

CONCLUSION

Entrepreneurship is a multifaceted phenomenon which affects economic growth as it stimulates capital formation, generates employment opportunities, increases gross domestic product, encourages innovation, promotes export, improves standard of living and facilitates overall development of the nation. Entrepreneurship is considered as an essential element to gear up economic growth. The study confirmed that there have been mixed results in several studies based on the link between entrepreneurship and economic growth. A number of scholars described different effects of entrepreneurship on economic growth in developing countries and developed countries depending on the level of development of the economy. Moreover, government policies, institutional support, societal values and personal attributes of entrepreneurs immensely affect the entrepreneurial initiatives and consequently economic growth of a country. The role of entrepreneurship in stimulating economic growth is a topic of vast discussion which deserves further study.

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