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Study on the Significant Role of Entrepreneurship in the Economic Development

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Abstract: *Development is contingent upon the efficient utilization of a country's resources, particularly its human capital, which is considered a highly significant asset for any nation. The main aim of this study is to investigate the correlation between intellectual capital and economic growth in 50 specific countries, including Iran, from 2004 to 2012. Therefore, economic growth and entrepreneurial data were used as dependent and independent variables, whereas the ratio of government expenditure to Gross Domestic Product (GDP), trade freedom, inflation, and school enrollment rate were used as explanatory variables. The data for this study was sourced from the Global Entrepreneurship Monitor (GEM) and the World Bank. Research findings indicate that entrepreneurship has a positive and significant influence on economic growth. Additionally, they illustrate how other explanatory variables affect economic growth. Additionally, the ratio of government spending to gross domestic product has a detrimental impact on economic growth, whereas the level of school enrolment and trade freedom have a beneficial effect.*

Keywords: entrepreneurship, economic growth, and entrepreneur

I. INTRODUCTION

The calculation of national wealth and the elements that can affect its determination have been crucial since the birth of early economic schools. An endeavour was undertaken to develop a novel technique called "growth accounting." The new approach incorporates additional components, namely entrepreneurship and social capital, which are considered residuals of the Solow Model. These factors are included alongside the standard production factors of capital and labor force (Portela, 2012: 321). Entrepreneurship holds immense potential as a primary driver of economic progress, fostering heightened productivity and generating substantial wealth. Put simply, contemporary growth is no longer reliant on the availability of plentiful natural resources or a specific sociopolitical structure, but rather on human resources. The mind plays a crucial role in driving economic progress (Job Portal Site). Furthermore, entrepreneurship is founded on the identification and exploitation of possibilities rather than the utilization of resources (Stevenson and Gumpert, 32:1991). This era is defined by the information age and globalization, and it is distinguished by innovative outcomes, swift changes and alterations in human interactions, and fierce corporate rivalry. Entrepreneurship plays a vital role in fostering growth and development in such a setting (Clark, 2004).

This research aims to analyze the influence of entrepreneurship on economic growth, focusing mostly on the perspective of Joseph Schumpeter, who has predominantly emphasized the role of innovation. This study analyses the impact of various factors, such as entrepreneurship, trade freedom, government expenditure as a percentage of gross domestic product, school enrolment rates, gross domestic product, and inflation, on the economic growth of five specific countries, including Iran, during the period from 2004 to 2012. The latest GEM data, known as the Total Entrepreneurial Activity (TEA) indicator, has been included in the model as a replacement variable for entrepreneurship and as an independent variable.

The document comprises five sections. The second section encompasses the overall features of the issue, which include the theoretical underpinnings and a comprehensive review of existing literature. The third segment will address study methodology, the fourth segment will provide empirical evidence, and the fifth segment will offer a conclusion.

Entrepreneurship refers to the activity of creating, developing, and managing a business venture, typically with a high degree of innovation, risk-taking, and initiative. Entrepreneurship has been a fundamental aspect of all aspects of human existence throughout history. It has served as the basis for the development of human societies. Throughout its

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growth, it has been defined using several interpretations. Entrepreneurship is the act of identifying and capitalizing on opportunities through innovative thinking and persistent effort, all while taking on financial, psychological, and societal risks. The motivation behind it is driven by the desire for wealth, self-fulfilment, and independence" (Hisrich, 2007: 172).

An entrepreneur is an individual who starts and manages a business venture, taking on financial risks in order to achieve success and profitability.

The term entrepreneur first emerges in the writings of Cantillon. He outlined three tiers of economic factors: proprietors, entrepreneurs, and employees. According to his perspective, an entrepreneur is a somebody who actively participates in risky business endeavours. Cantillon argued that the lack of precise forecasting is the fundamental basis of entrepreneurship. In addition, VoneThunen made a distinction between the entrepreneur and the provider of finance. According to him, an entrepreneur bears a resemblance to the guy Cantillon depicted as an entrepreneur (Wennekers and Thurits 27: 1999). Menger, a co-founder of the Austrian school, also took into account this divergence. At first, he describes an entrepreneur as an individual who combines factors of production and introduces the name entrepreneur based on this characteristic (Lumpkin and Dess, 631: 1996). Marshal differentiates entrepreneurs from other neoclassical theorists by designating them as "new route pioneers." Evidently, contemporary monetarist neoclassical economists do not incorporate the concept of an entrepreneur into their models. Knight and Schumpeter distinguished between the roles of management or supervision and the function of entrepreneurship. According to Herbert and Link (1989), an entrepreneur is defined as an individual who is responsible for making significant decisions that impact the environment, goods, resources, or institutions (van Dkjk and Thurik, 2019).

Over the course of history, the definition and characteristics associated with being an entrepreneur have evolved across several eras. Thirteen important functions can be identified for the entrepreneur, according to Herbert and Link (2009), Van Dijk and Thurik (1995), and Van Praag (2017).

1- An individual who takes on unpredictable risks; 2- A financier; 3- A trailblazer; 4- A person who makes choices; 5- A frontrunner in the industry; and 6- A person in charge or overseeing operations. 7- Economic resource organizer; 8- Business proprietor; 9- Production factor employer; 10 - Contractor; 11 - Arbitrageur; 12 - Resource allocator for alternative applications; 13 - Entrepreneur.

Entrepreneurial theories can be classified into three primary schools, all of which can be attributed to Richard Cantillon. The first school is the German school, which includes scholars such as voneThunen, Schumpeter, and Baumol. The second school is the neoclassical school, which consists of scholars like Marshal, Knight, and Schultz. The third school is the Austrian management school, which is associated with Von Mises and Krizner.

When examining the impact of entrepreneurship on economic growth, Schumpeter emphasized innovation as a key factor. Innovation refers to the systematic process of creating novel and valuable ideas, products, or services that have a meaningful impact on individuals, groups, businesses, industries, or societies. Innovation is an inherent trait exhibited by both entrepreneurs and corporations. Resolving challenges and pursuing opportunities require solutions, many of which may be special to a particular situation. Hence, the presence of creativity and the subsequent generation of innovation are essential for the endurance and prosperity of organizations (Higgins, 1995). The citation "Higgins, 1995" refers to a source that was published in 1995 by an author named Higgins.

Entrepreneurship was excluded from economic theory due to its absence in the Solow neoclassical growth model (Solow, 1970). An important feature of this development model is that technological progress is exogenous, meaning it is independent of economic inputs. Traditionally, economic growth was achieved by the accumulation of money and the introduction of external technological advancements, without any reliance on entrepreneurial involvement. Contemporary endogenous growth models affirm the idea that technological progress has become a lasting factor that consistently raises living standards. The long-term growth trend is often explained in various endogenous growth theories as the result of purposeful and productive investment in knowledge (Grossman and Helpman, 1994: 24). The act of benefiting by modifying resources to accomplish technological advancement might be considered an entrepreneurial act due to its association with unlimited investment. Endogenous growth models generally do not explicitly incorporate entrepreneurship as a driver of economic and technical advancement. Nevertheless, Aghion and Howitt (1992) provide an exemption for the concept of creative destruction. Aghion and Howitt employed a growth model to incorporate Schumpeter's concept of "creative destruction." Based on research, this paradigm requires the

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complete elimination of the previous product in order to create the current one. This notion excluded capital from the fundamental model and ascribed growth to technological progress. Therefore, enterprise competitiveness led to the generation of innovation. Once a company starts making profits from a monopolized innovation, other firms are compelled to promote innovation, which makes the monopolized innovation outdated.

II. REVIEW OF LITERATURE

Joseph Schumpeter had a significant contribution in the early 20th century in describing the economic influence of entrepreneurship. However, the linked subjects have been overlooked in major economic discussions for a considerable period of time. Nevertheless, scholars and policymakers have recently shown a renewed interest in determining the percentage of innovative entrepreneurial strategies that contribute to economic growth in the past decade. Furthermore, there is a prevailing tendency in theoretical literature to more prominently integrate entrepreneurs into growth models (Braunerhjelm, 2008).

Acs and Armington (2002) establish a connection between a measure of entrepreneurial activity and the economic expansion of specific regions. Their paper makes three notable contributions. Firstly, their approach is more comprehensive, encompassing data for the entire private sector rather than just a limited number of industries. Furthermore, they employed a straightforward index to quantify entrepreneurial actions. The variable of interest was the rate of entrepreneurial emergence within each respective local economy. They investigated the hypothesis that an increase in entrepreneurial activity leads to better rates of economic growth. Even after accounting for factors like as establishment size and agglomeration effects, there is a strong positive correlation between higher levels of entrepreneurial activity and higher growth rates.

Multiple studies have endeavoured to elucidate the importance of entrepreneurship in elucidating higher levels of economic growth in countries or regions. Van Stel et al. (2004, 2005) employed three factors to elucidate the economic growth of a nation: the entrepreneurship rate, the per capita production, and the global competition index. By analysing GEM data, researchers concluded that the rate of entrepreneurial activity positively impacts economic growth.

Salgado-Banda (2005) proposed a novel variable for measuring entrepreneurial activity. This study examines the impact of self-employment on economic growth. An examination of 22 OECD nations uncovered a detrimental association between self-employment and economic progress. The conclusions were substantiated by a plethora of econometric parameters and methodologies.

Wong Ho and Autio (2015) employed the Cobb-Douglas production function to elucidate how entrepreneurship and technical innovation act as factors influencing economic growth in emerging countries. The findings suggest that the swift growth of new businesses leads to job creation in small and medium-sized industries.

Audretsch et al. (2006) proposed a production function hypothesis for Germany, which was based on a sample. It was established that there is a favorable correlation between entrepreneurship, capital, and local economic growth. Based on statistics from the World Bank, Klepper et al. (2007) discovered a direct relationship between the rate of individuals working for themselves and the growth of the economy. In theory, there is evidence to suggest that entrepreneurship not only leads to job elimination, but also that unemployment itself contributes to further unemployment.

Stam and van Stel (2017) employed two scales to assess entrepreneurship: the rates of "necessity" and "opportunity" entrepreneurship. Based on the findings, the impact of these scales relies on the level of development in these nations.

Koo and Kim (2019) constructed an economic growth model. The economic growth rate relies on the growth rate of locally valued knowledge, which is determined by factors such as research and development (R&D), university research, social capital, entrepreneurship, human capital, and industry structure. It has been found that entrepreneurship has a substantial role in promoting regional development.

III. CONCLUSION

Consistent with prior studies, there exists a positive and substantial correlation between economic growth and entrepreneurship. Put simply, the evidence shows that fostering entrepreneurship and boosting the number of entrepreneurs in a country can result in enhanced economic growth. Furthermore, the findings suggest that economic growth can be fostered by augmenting the magnitude of global trade. The findings of this study suggest that the level of literacy, as measured by the net school enrollment rate, has a favorable and substantial impact on economic

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development. Furthermore, inflation exerts a detrimental influence on economic growth as it hampers the production sector, hence impeding economic progress. The findings indicate that a rise in government expenditure in the national economy has a negative impact on economic growth.

To establish a more dynamic economy, the government can foster an entrepreneurial culture, create an environment that supports entrepreneurship, reduce inflation and government spending, and prioritize foreign commerce. Both formal and informal education have a profound impact on the development of entrepreneurship. Educational institutions, including high schools, vocational education centers, and universities, should give top priority to fostering entrepreneurship and cultivating a culture of innovation. The cultivation of innovation and originality should be highly esteemed during their instruction.

In addition, it is crucial to enhance the Research and Development (R&D) departments of companies in order to establish a conducive atmosphere for the growth of innovative individuals and entrepreneurs. It is crucial to highlight the significance of entrepreneurs and their drive to create novel products and inventive techniques of production. The government's provision of financial support to entrepreneurs and its guarantee of a share of the investment risk involved in developing technology can also promote entrepreneurship and contribute to economic growth.

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