

Role Entrepreneurship in Economic Development of a Nation

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Abstract: *As an important and primary objective, achieving development depends on the optimal utilisation of all of a country's resources, especially human capital, which is regarded as one of the most valuable assets of every nation. In light of this, the primary objective of this study is to examine the relationship between intellectual capital and economic growth in 50 selected nations, including Iran, between 2004 and 2012. Thus, economic growth and entrepreneurship statistics were utilised as dependent and independent factors, whereas the ratio of government expenditure to Gross Domestic Product (GDP), trade freedom, inflation, and school enrollment rate were employed as explanatory variables. This study's information was obtained from Global Entrepreneurship Monitor (GEM) and the World Bank. According to research findings, entrepreneurship has a favourable and substantial impact on economic growth. They also demonstrate the impact of other explanatory variables on economic expansion. Moreover, the proportion of government expenditures to gross domestic product has a negative influence on economic growth, whereas the rate of school enrolment and trade freedom has a positive effect.*

Keywords: Entrepreneurship, Economic Growth, and Entrepreneur

I. INTRODUCTION

Since the emergence of early economic schools, the method of calculating national wealth and the factors that can impact the determination of national wealth have been of paramount importance. Efforts were made to introduce a new method known as "growth accounting." In the new method, characteristics such as entrepreneurship and social capital, which serve as explanatory variables and are known as residuals of the Solow Model, were added to the traditional production factors, i.e., capital and labour force (Portela, 2012: 321). Entrepreneurship is the most significant potential source of economic growth, increasing productivity and producing wealth. In other words, growth nowadays does not depend on the presence of abundant natural resources or a particular sociopolitical system, but rather on human sources. The mind is the primary determinant in economic development (Job Portal Site). Moreover, entrepreneurship is built on opportunities as opposed to the use of resources (Stevenson and Gumpert, 32:1991). This era is characterised by the information age and globalisation, and it is marked by inventive results, rapid changes and transformations in human interactions, and intense corporate competitiveness. In such an environment, entrepreneurship is crucial for growth and development (Clark, 2004).

The purpose of this paper is to examine the impact of entrepreneurship on economic growth from the perspective of Joseph Schumpeter, who has mostly concentrated on innovation. In addition to entrepreneurship, the effect of trade liberty, the proportion of government expenditure to gross domestic product, the rate of enrollment in schools, gross domestic product, and inflation are examined on economic growth for five selected countries, including Iran, between 2004 and 2012. The most recent GEM data titled Total Entrepreneurial Activity (TEA) indicator has been incorporated into the model as a substitution variable for entrepreneurship and an independent variable.

The document contains five sections. The second portion covers the subject's general aspects, including theoretical foundations and a literature survey. The third portion will discuss study technique, the fourth section will give empirical data, and the fifth section will present a conclusion.

1.1 Definition of Entrepreneurship

Entrepreneurship has always existed in all spheres of human life. It has been the foundation for the evolution of human communities. In the course of its development, it has been defined in several ways. Entrepreneurship can be defined as

"the process of innovating and exploiting opportunities with great work and tenacity, while assuming financial, psychological, and societal risks." It is indeed motivated by profit motivation, self-actualization, and autonomy" (Hisrich, 2007: 172).

1.2 Definition of Entrepreneur

The term entrepreneur initially appears in the writings of Cantillon. He presented three layers of economic factors: proprietors, entrepreneurs, and employees. According to him, an entrepreneur is a person who engages in uncertain commercial activities. Cantillon reasoned that the absence of accurate prediction is the root of entrepreneurship. Additionally, Vone Thunen distinguished between entrepreneur and capital provider. According to him, an entrepreneur resembles the individual Cantillon described as an entrepreneur (Wennekers and Thurits 27: 1999). Menger, one of the founders of the Austrian school, also considered this differentiation. Initially, he defines an entrepreneur as a person who integrates production factors and introduces the term entrepreneur on the basis of this personality (Lumpkin and Dess, 631: 1996). Marshal distinguishes entrepreneurs from other neoclassical theorists by assigning them the position of "new route pioneers." Apparently, modern monetarist neoclassical economists do not place entrepreneur in their models. Knight and Schumpeter divided between management or supervision and the function of entrepreneur. Herbert and link (1989) propose the following definition of who and what an entrepreneur is: "An entrepreneur is a person who is accountable for making appropriate judgements that have an effect on the environment, commodities, resources, or institution" (van Dijk and Thurik, 1999).

Throughout history, the position and the attribute considered for entrepreneur has changed in different faces. At least thirteen significant functions may be identified for the entrepreneur (Herbert and link, 1989; Van Dijk and Thurik, 1995; Van Praag, 1996):

1- A person who assumes uncertain risks; 2- A provider of capital; 3- An innovator; 4- A decision-maker; 5- An industry leader; and 6- A manager or supervisor. 7- Organizer of economic resources; 8- Owner of a business; 9- Employer of production factors; 10 - Contractor; 11 - Arbitrageur; 12 - Allocator of resources among alternative applications; 13 - Person aware of the start of a new enterprise.

Entrepreneurial theories can be categorised into three major schools, each of which can be traced to Richard Cantillon. First is the German school of vone Thunen, Schumpeter, and Baumol; second is the neoclassical school of Marshal, Knight, and Schultz; and third is the Austrian management school of Von Mises and Krizner.

Schumpeter placed more stress on innovation as a criterion for gauging entrepreneurship when discussing the effect of entrepreneurship on economic growth. Innovation is the process of developing something new that has significant value for an individual, group, business, industry, or society. Innovation is a characteristic of entrepreneurs and businesses. Solving difficulties and following opportunities demand answers most of which may belong to a specific status. Therefore, creativity and its resulting innovation are crucial for survival and success of organisations (Higgins, 1995) (Higgins, 1995)

Entrepreneurship disappeared from economic theory because it had no part in the Solow neoclassical growth model (Solow, 1970). Important aspect of this growth model is that technology advancement is exogenous and, therefore, independent of economic stimuli. In conventional concept, economic growth was generated by accumulation of capital and exogenous technological progress, neither of which depend on entrepreneurial participation at all.

Recent endogenous growth models support the notion that technological advancement has become a permanent force increasing living standards. Long-term growth trend is however described in many endogenous growth theories by objective and exploitative investment in knowledge (Grossman and Helpman, 1994: 24). Because it is the consequence of indefinite investment, the action of profiting by altering resources to achieve technical development can be accounted for as an entrepreneurial act. However, it is not typical for endogenous growth models to openly embrace entrepreneurship as economic and technological development. However, Aghion and Howitt (1992) make an exception for creative destruction. A growth model was used by Aghion and Howitt to introduce Schumpeter's idea of "creative destruction." According to research, this paradigm necessitates the annihilation of the preceding product in order to produce the current one. This concept omitted capital from the basic model and attributed growth to technological advancement. Consequently, innovation was generated by enterprise competitiveness. Once a firm begins to profit from

a monopolised innovation, rival companies are driven to foster innovation, which renders the monopolised innovation obsolete.

II. LITERATURE REVIEW

Despite the key role Joseph Schumpeter had in the early 20th century to describe the economic impact of entrepreneurship, the related topics have been taken for granted in major economic flows for a very long time. However, academics and policymakers have renewed their interest in identifying the proportion of dynamic entrepreneur industrial methods and economic growth over the previous decade. In addition, there is a trend in theoretical books to incorporate entrepreneurs into growth models in a more pronounced manner (Brauner hjelm, 2008). Acs and Armington (2002) link an indicator of entrepreneurship to regional growth. Their paper contributes in three significant ways. First, their method is more inclusive, including data for the whole private sector as opposed to just a few industries. Thirdly, they utilised a direct index to measure entrepreneurial activities. It was the rate at which new businesses appeared in each local economy. They examined the notion that increasing entrepreneurial activity results in higher economic growth rates. Even after controlling for establishment size and agglomeration effects, higher levels of entrepreneurial activity were found to be highly positively correlated with higher growth rates.

Several studies have attempted to explain the significance of entrepreneurship in explaining better levels of economic growth in countries or regions. Van Stel et al. (2004, 2005) utilised three variables to explain a country's economic growth: the rate of entrepreneurship, the production per capita, and the world competition index. Using GEM data, they determined that the rate of entrepreneurial activity has a favourable effect on economic growth.

Salgado-Banda (2005) suggested a new variable to quantify entrepreneurial activity. This research investigates the effect of self-employment on economic expansion. The analysis of 22 OECD nations revealed a negative correlation between self-employment and economic development. The conclusions were supported by a multitude of econometric specifications and methods.

Wong Ho and Autio (2005) used the Cobb-Douglas production function to explain entrepreneurship and technical innovation as growth determinants in developing nations. The results indicate that the rapid expansion of new enterprises produces employment in small and medium-sized businesses.

In Germany in 1990, Audretsch et al. (2006) hypothesised production function based on a sample. They determined that entrepreneurship, capital, and local economic growth are positively related. Using World Bank data, Klepper et al. (2007) found a positive correlation between the rate of self-employment and economic growth. Theoretically, not only is there evidence that entrepreneurship eliminates jobs, but also that unemployment itself causes unemployment.

Stam and vanstel (2009) utilised two scales to measure entrepreneurship: "necessity" and "opportunity" entrepreneurship rates. According to the findings, the effect of these scales is dependent on the level of development in these nations.

Koo and Kim (2009) developed an economic growth model. The rate of economic growth is dependent on the rate of growth of economically valuable local knowledge, which is a function of R&D, university research, social capital, entrepreneurship, human capital, and the structure of the industry. They discovered that entrepreneurship contributes significantly to regional growth.

III. CONCLUSION

Consistent with previous research, there is a positive and significant relationship between economic growth and entrepreneurship. In other words, data indicate that expanding entrepreneurship and increasing the number of entrepreneurs in a nation can lead to greater economic growth. In addition, the results indicate that by increasing the volume of international trade, favourable conditions can be created for economic growth. The results of this study indicate that the rate of literacy, as assessed by the net school enrolment rate, has a positive and significant effect on economic growth. In addition, inflation has a negative impact on economic growth since rising inflation would affect the production sector, which is an impediment to economic expansion. The results demonstrate that increased government spending in the national economy is detrimental to economic growth.

On the basis of the outcomes, the government can achieve a more dynamic economy by fostering an entrepreneurial culture, creating an environment conducive to entrepreneurship, cutting inflation and government spending, and

focusing more on international commerce. Formal and informal education plays the most significant influence in the development of entrepreneurship. Educational institutions, such as high schools, vocational education centres, and universities, must prioritise the development of entrepreneurship and the establishment of culture. Innovation and inventiveness must be valued in their training.

Additionally, firms' Research and Development (R&D) divisions must be bolstered in order to create a fertile growth environment for innovative individuals and entrepreneurs. The importance of entrepreneurs and their motivation to generate a new product and innovative production methods should be emphasised.

The government's financial backing of entrepreneurs and its assurance of a portion of the investment risk associated with creating technology can also foster entrepreneurship and help to economic growth.

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