

Entrepreneurship and Economic Growth: Literature Review

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Abstract--- *The aim of this paper is to review literature about the impact of entrepreneurship on economic growth. Previous studies tackled two trends on the relation between entrepreneurship and economic growth. The first trend stresses that entrepreneurship has an ascending impact on economic growth through increasing job opportunities and production. As for the second trend, it denies such an impact. Each of these trends has its justifications.*

Keywords--- *Entrepreneurship, Economic Growth, Literature Review.*

I. INTRODUCTION

Literature review discusses two types of entrepreneurship, dynamic and fixed. Dynamic in a sense that firms are created to meet specific needs and services, while fixed is related to firms associated with existing entrepreneurs. This kind of differentiation between the two types create many standards related to dynamic and fixed entrepreneurs. Thus, the measurement may be classified into two categories, fixed and dynamic standards (Hartog et al., 2010). Both Bianchini, (2010) and Wennekers et al., (2005) see that the number of registered small enterprises is an indicator of the dynamic type of entrepreneurship, while the free individual ones are indicators of the fixed type. According to Wennekers et al., (2005) the distinction between the dynamic and fixed entrepreneurs is time dependent; the fixed type is the ownership of enterprises at a specific time, while the dynamic type indicates the change in enterprise over time.

There is another classification of entrepreneurship based on three types of motives that encourage individuals to start entrepreneurship activities. First, high expectation entrepreneurship, is related to firms that have been founded in less than 42 months and are expected to employ minimum of 20 persons in the first five years. These are small in size with a strong ability to benefit from resources, though such resources and financing are limited (Moreno and Casillas 2007). Second, entrepreneurship activities which depend on opportunities where an individual finds an opportunity to start a business as one of the options for job opportunity (Sternberg and Wennekers 2005). Third, necessity entrepreneurship activity in which entrepreneurs consider this type of initiative to be the last resort of enterprise for them because other job options are neither satisfactory nor available. This third type does not have any impact on economic growth, but just meets the need of an individual to have a job.

Wong et al., Ho, and Autio (2005) said that entrepreneurs may contribute to improving economic growth through economic diversification, provision of products and services, and opening new markets. Entrepreneurship is a

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significant pathway of economic diversification as it focuses on small and medium enterprises whose aim is basically to create alternative opportunities for individuals to support the economy. The concept of economic diversification in any country implies the desire to achieve more sources of income by consolidating its actual capabilities within a framework of world competition through an increase in productivity. This requires a need for economic sectors to gradually substitute the sole resource of income (Marzook, 2013). Economic diversification is considered to be one of the most important economic policies to which developing countries with abundant natural resources resort. This makes such countries establish what is known “resource curse” (Gelb and Sina, 2010).

Many of the developing countries with abundant natural resources face a big challenge to ideally utilize such resources in order to achieve sustainable development. This resource curse is exemplified in the following three arguments: First, some economists say that the country’s dependence on the exhaustible resources creates a distorted economy which depends more on this resource as a source of income with less reliance on industrialization, thus leads to weak economic growth. Second, such kind of wealth may lead to strengthen despotism destruction (Ramsay, 2011). Third, some scholars related abundance of natural resources to prolonged civil struggle in the country with regard to wealth (collier and Anke, 2005). Suggested solutions for resource curse have been outlined by economists which include; 1) truth in all economic aspects, 2) re-inventing revenues of exhausting resources to secure a flow of such resources, 3) creating special economic zones, 4) distributing revenues directly to people, 5) privatizing economic sector in a way which ensures a competent and active administration (Rosser, 2007, Humphreys et al., 2007, Davis et al., 2001). Therefore, the impact of entrepreneurship on economic growth is a complicated and controversial issue. Also, establishing a direct relationship between entrepreneurship and economic growth has various interactive factors difficult to be measured (Sabella et al., 2014).

II. ENTREPRENEURSHIP HAS A POSITIVE IMPACT ON ECONOMIC GROWTH

Many studies found a positive relation between entrepreneurship and economic growth. The more active the entrepreneurship is, the more positive the impact on economic growth will be (Schumpeter, 1911; Kirzner, 1973; Carree and Thurik, 2003; Martinez, 2005). The relationship between entrepreneurship and economic growth revolves around the role it plays in transforming new ideas to new products and services, more new jobs, and more profits for firms (Schumpeter, 1911). ACS (1992) found that entrepreneurs are just agents who transform new ideas to new products which actively contribute to job creation and economy improvement (Sabella et al., 2014). A positive relationship between entrepreneurship and economic growth was found in a study conducted on thirteen European countries. The countries which were more active in entrepreneurship achieved better economic growth rate than those which did not have such level of activeness (Carree and Thurik, 1998).

The inter-related economic growth with entrepreneurship can be seen in the new created jobs, easiness for new enterprises to get loans, increase of competition in the markets, and the quality production. All of these are factors which have a positive influence on economic growth (Naude, 2008). Carree and Thurik (2002) found that entrepreneurship stimulates economy growth through an increase in production capacity and developing creative methods for purchasing and distribution. Minniti and Lavesque, (2006) also see that the significance of

entrepreneurship stems from being a source of creativity which tries to utilize the non-utilized resources in order to make them functional in the economic growth of the country. Wong et al. (2005) mentioned that entrepreneurs may contribute to economic growth through diversification, creativity, new markets creation, and competitive improvement. Supply and demand of entrepreneurship exist, where supply refers to required skills and available resources, and demand refers to the opportunities available for economic activity (Audretsch et al., 2002). On the other hand, Almahry et al. (2018) emphasizing on entrepreneurial skills, which showed that technical skills, business management skills and personal entrepreneurial skills are affected by the level of entrepreneurship education.

Entrepreneurship differs from one country to another according to the country GDP and economic growth rate (Carree et al., 2007). The relation between establishing entrepreneurship enterprises and individuals' share in the national income is not a linear, but takes a "U" shape form. Countries with high per capita income have an increase in entrepreneurship activities as individuals seek to improve such income. Another type of countries also with high per capita have an increase in entrepreneurship activities, but due to availability of financial resources, technology, and governmental support. Entrepreneurship, therefore, may differ in these two types of countries where first type of entrepreneurship is called necessity entrepreneurship activity while the other is called opportunity entrepreneurship (Minniti et al., 2005). Therefore, general policy makers in any country should stimulate ideal entrepreneurship that copes with the country's economic status and plays a role in economic growth (Valliere and Peterson, 2009).

Institutions are considered an active factor in economic growth as they are the major motive for those concerned with economy in the society, investment, technology and capita (Me'ndez-Picazo et al., 2012). Institutions might be formal such as lists, contacts, procedures, etc. or informal such as culture and values (Aparicio et al., 2016). Wong et al. (2005) provided theoretical evidence on the relation between entrepreneurship and economic growth. The evidence indicates that there is an influence of active corporates on economic growth which emerges from various types of behavior including inventiveness, combining resources and increasing competition. Previous studies found that various circumstances, economic variables, and general policies may play a role in activating entrepreneurship and its role in economic growth. There are three theories and evidences which support this kind of relation and put down frameworks to activate this role. First, the new economic environment theory which is based on internal growth theory and on the national system of inventiveness. Such theories explain the performance of economic role of the country in relation to factors such as infrastructure, human capital, and culture. These local differences can be a factor of disagreement between developing and developed countries concerning economic growth (Valliere and Peterson, 2009). From this perspective, one can see that geographic and internal factors play a significant role in economic development (Krugman 1991a, 1991b, 1991c).

The theory of internal growth aims to determine the role played by local inventiveness in economic growth (Romer, 1990; Nijkamp and Poot, 1998). Second, the modern classical theory stresses that technological change might be of external origin, while the local theory of development stresses that technological change stems from the local environment (Valliere and Peterson 2009). Consequently, countries with inventiveness grow faster (Suarez-Villa 2000). This growth comes from local investments that help create knowledge which serves local environment even if it were from some who aim at profit. These innovations could not be available at a larger scale in countries within a

short period of time, but the interaction can be between the close parties to create this knowledge of local innovation system (Valliere and Peterson 2009; Glaese et al., 1999; Sternberg and Wennekers, 2005, Anselin Varga, and Acs 2000; and Varga 2005). Technology activation in business can be through entrepreneurship activity which benefits from such inventions in commodity production for distinctive services and through opening new markets and creating job opportunities which lead to improvement of economic growth (Audrestch and Kleibach, 2004). According to this theory, the country's concentration on economic activity emerges from three criteria which are increasing individuals' participation in economic activity, reducing transportation costs, and increasing demand for local products (Valliere and Peterson 2009).

The third concept of economic growth depends on the collective national system of inventiveness as presented in the roles of government, institutions, and technology systems which motivate entrepreneurship (Freeman 1988; Lundvall 1988; Nelson 1988). Institutions and public governance play a central role in this system as this role is important in the development and to the resources needed to achieve this development. This system leans on royalties and authority of law (Gwartney Halcombe, and Lawson 1999). The institutions functioning in a suitable investment environment are important to encourage development, entrepreneurship, and economic growth (Boettke and Coyne 2003). Although institutions' participation is very important to activate this system, but economic and social factors are equally important. Individual entrepreneurship is the constructive fabric of the country's economy (Audrestsch et al., 2002).

III. ENTREPRENEURSHIP HAS NO IMPACT ON ECONOMIC GROWTH

Economic growth has been of an important increasing concern by decision makers and researchers, especially after the rise in the level of unemployment in the world. Despite the extensive studies and evidence which found a relation between entrepreneurship and economic growth, there are still some who argue against this issue (Minniti and Lavesque, 2006). Consequently, results of past experimental studies on this relationship between entrepreneurship, inventiveness and economic growth were different. Most of those studies did not have control factors on entrepreneurship activities and their motives (Valliere and Peterson 2009). It is known that new knowledge contributes to economic growth, but the mechanism through which this knowledge is put into practice and its role in the economic development is arguable. For example, why did not big investments in research and development have an impact on economic growth in Japan and Sweden? Contrary to European countries, why did not entrepreneurship activities play a big role in economic growth in the United Kingdom? Or, why does such an impact vary from time to time?

In general, why does not new knowledge incessantly lead to economic growth? (Carlsson et al., 2009). Acs (2006) study went beyond that when found that there was a negative impact of some entrepreneurship activities on economic growth. This study, therefore, adopts the null hypothesis on the relation between entrepreneurship activities and economic growth under auspices of general public governance. This relationship can be illustrated in the following: "There is no moderating role of public governance on the relationship between the entrepreneurship and economic growth". Experimental studies did not precisely determine any causal relationship between entrepreneurship

expansion and economic growth. Many studies assumed that registering new corporates as an indication of such a relation between the entrepreneurship and economic growth, but never took into consideration other factors affecting entrepreneurship (Carree et al., 2007) Fritsch, (2007) argues that the rise in the newly founded enterprises in any economy could not necessarily have a positive relation with creating new jobs in that economy. There are two types of entrepreneurs: necessity-entrepreneurship activity and hypothesis-based one. The first type emerges when the individual has no available options, but the second gets involved in searching for available opportunities in a specific market. The first has a negative impact on economy but the second has a positive impact.

In Palestine (Sabella et al., 2014) found that the necessity entrepreneurship had no impact on economic growth. It was also found that 40% of entrepreneurs in Palestine was non-official, thus, the role of entrepreneurship in achieving economic growth was of great doubt. Fritsch, (2007) sees that the necessity entrepreneurship activity does not necessarily create new jobs. Tang and Koveos, (2014) discussed two types of entrepreneurship: Voluntary and Creative and their role in economic growth. The study found that voluntary entrepreneurship has an influence of direct proportion on economy in countries with high income than those of medium ones and finally those of low, while the creative one plays a negative role. The different influences of entrepreneurship on the growth of economy lie in the type of work, be official and non-official. The difference in results may go back to data sources on entrepreneurship. Data derived from International Bank measure entrepreneurship by the officially registered enterprises, but those derived from GEM measure the first stage of entrepreneurship (Sabella et al., 2009). Enterprises that serve the society should not necessarily be officially registered as this imposes restrictions on the data used in many studies and on the ability of monitoring the relation between economic growth and entrepreneurship.

IV. CONCLUSION

The development of societies mainly depends on the will and political ability of those in authority who regulate social and economic life through a set of laws to increase credibility. It also fights corruption and secures efficient governmental performance. Despite the importance of resources, they are not enough in the development of societies when compared to rules that govern distribution of resources to achieve prosperity to the present generation. This also should not affect future resources that bring growth, development and prosperity generations to come. One of the responsibilities of individuals to the society is to contribute to the growth and development of that society. Entrepreneurship is one of the means by which individuals can influence economic life in the country and thus contribute to its welfare.

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