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Comparative Evaluation of the Effects of Entrepreneurship and Innovation on the Economic Growth of Developing and Developed Countries

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Abstract

Entrepreneurship is one of the factors that directly or indirectly affects a country's economy. It is a fact that entrepreneurship plays an important role in shaping a country's economic prospects. In fact, entrepreneurship is the engine of economic growth and is understood as a catalytic factor for the expansion and promotion of productive activities in every sphere of economic life worldwide. Entrepreneurship can have significant effects on economic growth by creating innovation, design, variety of product production and increasing the efficiency and competitiveness of enterprises, and higher economic growth increases the motivation for innovation and knowledge of entrepreneurial people. The aim of the current research is to investigate the impact of entrepreneurship and innovation as two key and effective components on economic growth using GLS method. For this purpose, using the data of 20 developing and developed countries during the time period from 2008 to 2022, and using panel data approach. Findings show that entrepreneurship and innovation have a positive and significant impact on economic growth in both groups of countries. The effect of entrepreneurship and innovation on economic growth in the group of developing countries is greater than that of developed countries.

Keywords: Economic Growth, Entrepreneurship, GLS Method, Human Capital, Innovation.

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Introduction

Economic growth, as one of the important goals of any society, lays the groundwork for public welfare, which is not solely achieved through abundant financial resources and God-given natural resources; rather, it relies on having dynamic minds. In simple terms, the quantitative increase in a society's national income or gross national product over a specific period is referred to as economic growth**.**

Achieving a high economic growth rate is considered one of the most important goals of any economic system, which consequently leads planners, economic theorists, and policymakers to seek a deeper understanding of the factors affecting economic growth. Understanding these factors facilitates proper planning at the national level and enables the attainment of desirable economic growth. Productivity enhancement is one of the sources of economic growth, and given that the world today is constantly changing, under such conditions, only countries that foster productivity improvement through creativity and innovation can achieve high economic growth.

Entrepreneurship is one of the factors that directly or indirectly affects the economy of a country. It is a fact that entrepreneurship plays an important role in shaping the economic landscape of a country. In fact, entrepreneurship is the engine of economic growth and is recognized as a catalytic factor for the expansion and promotion of productive activities in every area of economic life worldwide. By creating innovation, designing, diversifying product output, and increasing efficiency and competitiveness of enterprises, entrepreneurship can have significant effects on economic growth, and higher economic growth leads to an increased motivation for innovation and knowledge among entrepreneurs. This is because knowledge and innovation are emphasized as important resources for generating wealth and economic growth.

Therefore, the continuous and up-to-date application of knowledge significantly contributes to the creation of creativity and innovation. However, it should be noted that innovation and entrepreneurship, in addition to their positive effects, also have negative consequences. As Schumpeter has described, he referred to entrepreneurship as a disruptive force in the economy and named it creative destruction.

Considering that economic growth varies across different countries, and in light of the discussions regarding the impact of creativity and innovation on economic growth, this study aims to examine the relationship between entrepreneurship and innovation on economic growth and development. This research can demonstrate the various effects of innovation and entrepreneurship on economic growth. Additionally, regarding the novelty and innovation of the research method, it should be noted that numerous studies have been conducted on the relationship between entrepreneurship and innovation on economic growth; however, there is no available research that has undertaken a comparative and evaluative assessment of the effects of entrepreneurship and innovation on economic growth in two groups of developing and developed countries.

Methodology

The present research aims to examine the effects of entrepreneurship and innovation on economic growth in developing and developed countries through a comparative and comparative approach. The data used in this research was collected from official statistics published by the World Bank, the Global Entrepreneurship Monitor (GEM), and the Statistical Yearbook of the United States Census Bureau during the years 2008-2022. This research utilized data from 20 selected developing and developed countries.

There are various models regarding economic growth, but this study focuses on innovation and entrepreneurship, which has also been discussed in the theoretical foundations. Therefore, the

econometric model is derived from the model of Galindo and Méndez (2014), which is defined as follows:

$Ln(GDP) = a + B_0 \ln(TEA) + B_1 \ln(HC) + B_2 \ln(Innovation) + B_3 \ln(Capital)$

GDP: The gross domestic product is compiled at 2017 constant prices and is measured in dollars. TEA: The percentage of the workforce that is actively engaged in creating new businesses, or is a manager or owner of a company. Data for this indicator is collected from the Global Entrepreneurship Monitor (GEM). HC: Human capital is collected at 2010 constant prices. Educational expenditures are used as a representative of this in the research. Innovation: This represents innovation, where registered patents are used as a representative in this research. Capital: Net capital formation indicates the net value of all created assets in a country during a specific period, here expressed in accordance with the year 2017.

Findings

The findings indicate that in the model of developing and developed countries, all variables have a positive and significant impact on economic growth. Specifically, in developing countries, entrepreneurship, innovation, human capital, and physical capital affect economic growth by 0.06, 0.11, 0.61, and 0.06 respectively. On the other hand, in developed countries, entrepreneurship with a coefficient of (0.03), innovation with a coefficient of (0.09), human capital with a coefficient of (1.39), and physical capital with a coefficient of (0.27) contribute to changes in economic growth. Given these findings, the effect of entrepreneurship and innovation on economic growth is greater in the group of developing countries than in the group of developed countries.

Conclusion

This research examines four key factors affecting economic growth in two groups of countries, developing and developed. The results showed that all four factors, namely entrepreneurship, innovation, human capital, and physical capital, have a positive and significant impact on economic growth in both groups of countries. However, the degree of this impact differs between the two groups. The difference in the impact of these factors on economic growth in the two groups of countries can be attributed to their stage of development.

In developing countries, where infrastructures are weaker and markets are less developed, entrepreneurship and innovation can play a more significant role in job creation, increasing productivity, and introducing new products and services. In contrast, in developed countries, despite having stronger infrastructures and more mature markets, human capital and physical capital may play a more important role in enhancing productivity and competitiveness. Additionally, the type of innovation may also contribute to these differences.

In developing countries, innovations may be more focused on meeting basic needs and developing foundational technologies, while in developed countries, innovations may be more centered on radical and advanced innovations. Human capital and physical capital play a more significant role in economic growth in developed countries, while entrepreneurship and innovation are of greater importance in developing countries.