

## The Impact of Entrepreneurship on the Economic Growth of an Economy: An Overview

**Nkemjika Bernardine Nwagu and Edwin Ehiozogie Enofe, Ph.D,**

Department of Entrepreneurship,  
Faculty of Management Sciences,  
University of Benin, Benin City,  
Edo State, Nigeria.

**Corresponding Author: Nwagu Nkemjika Bernardine**

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### Abstract

This paper observed that different authors have discussed, at different times, some specific scope of coverage of the impact of entrepreneurship on the economic growth of the various economies of the world, using different methodologies, with different findings and recommendations, but none of them concentrated specifically on the overview. This paper, therefore, deemed it fit to give an overview of the subject matter in order to update the literature on the discussion on the subject matter, and thus contributed to the body of knowledge on the subject matter. It employed the discussion method by highlighting the conceptual clarifications of entrepreneurship, presented the link between entrepreneurship and economic growth in theory and practice in different issues or variables; and then made its conclusion, which emphasized that entrepreneurship had, and has contributed, and will still continue to contribute to economic growth of the different economies of the world; and thus recommended that all stakeholders should encourage this relationship between the two of them.

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**Keywords:** Entrepreneurship, Economic Growth, Economy, Impact, Implication, Overview

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### INTRODUCTION

The term entrepreneurship has been generally seen as innovation (Schumpeter (1));, in terms of the ability of a person or a group of persons to establish or identify an avenue and use such, in practice (Drucker [2], [3]; to meet the satisfaction of specific human wants in the society, resulting in business advancement and profits to the individual or group of individuals (entrepreneur(s)) and their organisations. Entrepreneurship has also been defined as the establishment of new businesses in the form of a combination of individuals who pulls their efforts economically and otherwise, intending to make available new economic goods or services in the form of value-added activity (Hisrich and Peters [4].

The definition(s) of economic growth can be found in Basic Economics textbooks; and it is generally defined as the persistence increase or decrease in the values of the gross domestic product (GDP) of an economy over a given period of time (See Lipsey & Chrstyal[5]; Todaro [6]; etc.).

This paper discussed the overview of the impact and implication of entrepreneurship on economic growth. It started from an introduction, then brief highlights establishing the relationship between the concepts of

entrepreneurship and economic growth in theory, review of discussions of empirical literature, and evidences in practice; and finally, the discussion of the paper served as a succinct contribution to the body of knowledge on the impact and implication of entrepreneurship on the economic growth of an economy.

The discussion of this paper was limited to an overview, and it employed descriptive analytical approach; thus, it did not attempt country by country specific analyses nor carried out quantitative empirical study approach in its discussion.

Based on the importance of entrepreneurship to the economy of any given country, there have been many scholarly contributions about the relationship or the co-existence between the concept of entrepreneurship and the concept of economic growth of any given country (Acs, Audretsch, and Robert [7]; Osamwonyi and Enofe [8], etc.). The relationship between entrepreneurship and economic growth is such that some arguments tended to attribute the relationship as being direct, whereas some others attribute the relationship to be indirect. The approaches in the analyses of these two schools of thought, who are

composed of both the economists and policymakers, were seemingly the same. They both admit that entrepreneurship has a significant impact and implication on any economy where. Another form of argument churned out by the proponents of this idea in discourse was that entrepreneurship is the engine of economic growth in any given nation, while some others likened it to be the blood or heart of any given economy.

Observations suggest that entrepreneurship is a catalytic agent that permeates economic expansion and promotion of productive economic activities in all angles of the global economy.

Recent studies and observations have shown that entrepreneurship is far beyond a practice of individual who is involved in business for profits making; rather, it further advances to be a panacea for economic empowerment, creation of jobs and means of employment, economic overhauling, and reduction or near elimination of economic disparity.

Having in mind the attributes and benefits of entrepreneurship, various developed and developing economies of the world have altered and amended their economic and political policies to make more rooms for the entrepreneurial economy in the countries than the policy of the managed economic system. Various countries have come to the reality about the importance and beneficial roles of entrepreneurship in the economic growth of the country, to this end, entrepreneurship has become a top agenda or a priority for many nations, especially, the developing nations who have instead of always hoping and relying on the provisions of foreign aid; reverted into advancing policies that will aid the practice of entrepreneurship (Acs, Audretsch, and Robert [9])

The fact that entrepreneurship aids economic growth is so glaring in that notwithstanding the trillions of dollars allocated annually to African countries, Africa still lies so low in terms of economic growth and has a relatively high baseline in terms of the poverty rates. However, based on a calculative report, the rate of entrepreneurship in Africa over the decade is gradually cutting down the poverty baseline and increasing economic growth in the region (Acs, and Szerb [10]).

The majority of studies have reported that qualitative economic growth requires entrepreneurs to blossom. That has quickened various stakeholders to clamour for the advancement of entrepreneurship as a tool to tackle the effects of the economic meltdown. The postulations in various works of literature highlight the advantages of entrepreneurship in the economy and brag that consistent creation of innovative businesses helps to thrive the economy towards an ideal economic growth. Suggestions and observations show that small and

medium scale businesses are very fundamental to economic growth and advancement. Due to the innovative nature of entrepreneurs, entrepreneurship has been idealised and conceptualised as the significant or critical factor in creating an enabling environment for the glowing of economic growth. In the same hand, entrepreneurship creates a favourable environment and circumstances for reduction of unemployment and creation of jobs, poverty alleviation and most importantly, economic growth (Acs, and Varga [11],

There are several ways in which entrepreneurship makes impacts or has implications on the economic growth of any given economy, that, it may do by creating series of innovative technologies, commercial products, and valuable services. Thus, this paper tends to make an overview of the impacts and implications of entrepreneurship on economic growth. In achieving the primary objective of this paper, the researcher will make a review of peer review journals, articles and works of literature, including but not limited to internet materials.

This will give the researcher room to ascertain basic facts and knowledge from the reviewed works. The scope of this paper is to make an overview of the impacts and implications of entrepreneurship on economic growth. It follows that the paper is not limited to any country or region or society; however, this paper will make a general overview citing examples from various economies across the globe, but with penned interest to the African economy. The significance of this paper is that it serves as a basis for more refined research on the topic area and it , serves as an educational material too.

It has been asserted that the relevant contribution which entrepreneurship has on economic growth is made more evident in it performing the role of a conduit pipe via which spillover of information which ordinarily would not be utilised and might have remained un-commercialized is activated to achieve relevant purposes.

There are conflicting reports based on the ascertained empirical evidence concerning the co-existence between entrepreneurship and economic growth. Some authors opined that the relationship between entrepreneurship and per capita gross domestic product in developed countries is positive, whereas the existing co-relation it has with economic growth in underdeveloped economies is negative. On the other hand, an entirely different study postulates that entrepreneurship and real per capita gross domestic product amongst all countries, whether developed or not, have a negative correlation (Acs, Audretsch, Braunerhjelm, and Carlsson [12]).

It is argued that any form of shallow or diminished quality of entrepreneurial activities would harm economic growth while a definite upsurge in the number of entrepreneurs and rate of entrepreneurial activities and abilities would bring about an avenue towards improving economic growth via various impacts and implications it may have on it (Autio [13]. According to Mueller[14], based on his tested hypothesis as to entrepreneurship and its components relations and whether or not it promoted the economic growth in Western Germany within the period of 10 years (1992 to 2002), “the obtained reports showed that areas that have a definite level of entrepreneurship had a higher and better level of productivity, and impliedly, economic growth”.

Mueller also did a second test to ascertain if entrepreneurship is a relevant means via which information or knowledge is transferred for economic growth; he observed that where there was an increase in the rate of activities which were innovative in nature and structure, it was more prominent and performing than an increase in mere entrepreneurship in so far as building economic growth is concerned. The observations made tend to have suggested that where there is an increase in the rate of self-employment, it appeared to add positively to the economic growth in the short run; however, it does not add positively to economic growth if stretched into a long-run (Mueller; 2007).

The impact and implication of the concept of entrepreneurship on economic growth in developing countries are bespoken with counter thoughts. The reason is not far-fetched, it is believed that in most of the developing countries where production applies mainly in terms of technological features, it implies that the economic growth in such areas is not based on ‘innovation’ and therefore, churning out in large quantities, replicative entrepreneurs. Furthermore, entrepreneurs breed in such damn conditions and circumstances are consequential and of little or no relevance to attaining positive economic growth (Audretsch, and Thurik [15].

Other authors like Baumol has a similar opinion, as stated immediately above. However, he did agree; as he refuted the idea of wholly dispersing the idea of replicative entrepreneurship. Baumol agrees wholly that the form of entrepreneur needed for economic growth is the innovative entrepreneur. However, an innovative entrepreneur does not entirely put off the concept or idea of replicative entrepreneurship, the reason being that the replicative entrepreneur remains a vital part of most economies on the ground that it is an avenue for poverty alleviation (Baumol [16].

The available literature have shown that economic growth is built on entrepreneurial activities such as creative innovations, dynamic effects, competition and discovery (Wong, Ho, and Autio [17]. It is essential to state that entrepreneurship may impact or has implications on economic growth in various ways such as the creation of vital innovations which brings about a featured production process or the rendering of valuable services which lead to an overhaul or transformation in many relevant industries. Entrepreneurial activities bring about loss of monopoly in business and eventually, competition in any given sector and such competition creates room for qualitative and quantitative production or business process in order to win through the healthy competition. The competition also adds to our knowledge as to the factors which are technically applicable and makes room for the creation of alternatives or options to all or most existing products and services, in that it gives consumers the room to select or make preferences (Stel, Carree and Thurik [18].

#### **Entrepreneurship as an intervention strategy to poverty Alleviation**

Widespread poverty had been a prolonged challenge in some parts of the world, especially the countries considered as developing or worse-still, underdeveloped countries. Based on recent studies, the continent of Africa is considered as the one with the highest rate of persons living in abject poverty or wretched standard of living. This argument is substantiated with the ascertained figure that about 383 (Three Hundred and Eighty-Three) Million people in Africa are living below the primary income of \$1.90 per day. Based on the studies done by Global development, there are almost half of all children born and living in sub-Saharan Africa who are in dire poverty. Although the global target of eliminating poverty in its extreme level is set to achieve in the year 2030, which is within 10 (ten) years from now; the target seems to be dead already considering the reports of UNICEF and World Bank, unless another miraculous leap is made (Cob, and Utara [19].

The information made available by World Bank as to the number of persons in extreme poverty living in |Africa, it is observed that Nigeria has the number one spot at the rate of 86 million followed by Democratic Republic Congo which is barely 30 million less to the number observed in Nigeria. Some scholars have put up arguments in defence of Nigeria; stating that putting the number obtained in Nigeria in percentage with her high population, Nigeria cannot be at the number one spot when same formula is used on all countries around the globe or the ones in Africa (Herrington and Kelley[20].

Accordingly, it is recorded that the number of people around the globe who live in extreme poverty has reduced radically since the turn of the millennium by a rate above half of its initial record. A case study to be used as evident-study is the Republic of China who has recorded a land-breaking success in terms of poverty alleviation. The record shows that China reduced and attacked its poverty gap from 84% to 15.9%. This call for a better impact for sub-Sahara Africa nations (Herrington and Kelley[20].

The observations showed that the rate of entrepreneurial activities has drastically increased around the globe. This increase has helped some of the initially downtrodden set of persons to rise above the standard poverty income gap check of \$2 per day. Despite the increase in the rate of entrepreneurial activities, which happens to have made entrepreneurship the main deal at the moment; entrepreneurs are faced with haggling challenges which makes their efforts to have negative implications on the economic growth of their respective economy. Take for instance, a farmer in Eastern Africa as at the year 2016, who spent almost a million dollars in setting off the planting season. The expectation is that the investment would create employment, increase food supply, increase the export rate, among others.

However, these expectations which were to have high positive impacts on the economic growth in East Africa, turn out to be given an unexpected death, as result of a natural disaster that befell the region in terms of drought. Here, instead, of a positive impact, the same entrepreneurship that has been given a positive mark in terms of its ability to reduce the rate of poverty, has turned to push the entrepreneur as well other investors or stakeholders concerned into the poverty line (Yang, and Ping [21].

### **Entrepreneurship in lieu of aid as a catalyst for economic growth**

Based on aid which has been geared towards poverty alleviation or reduction in some countries, it is estimated that more than two trillion dollars have been fitted into combatting poverty since 1970, yet, there is little or no impact to show for it. The collapse of the aid is evident when reasoned from the angle of hydro dams which were hugely spent on yet. They do not function, or the agro-based intervention funds that became waste as a result of natural phenomenon and the considerable money that were allocated towards construction of bridges and roads that were not completed or were completed but could not last the test of time, or the money spent in power supply and human empowerment that went missing.

Putting the outlined series of events in consideration, it will be agreed that entrepreneurship through the

activities of entrepreneurs is making positive impacts to the global economy, it can be said that they are changing the universe. Studies carried out have observed that for the past decade, about half a billion people or nearly above that have been able to be pushed out of the poverty line, via series of intervention made through small businesses, liberalisation of trade and economic productivity, and generally, entrepreneurship (Herrington and Kelley [20].

The winning argument is that entrepreneurs are the driving force for economic growth and the spending supported by financial aids. There is a great realisation that has spurred a bit of creative thinking amongst populace that the positive progression registered towards winning the combat against extreme poverty and achieving economic growth was not as a result of aids received by donors because aid planners do not create jobs- rather small businesses and entrepreneurs, in general, do (Santarelli, and Vivarelli [22].

The attributes of entrepreneurship over the years show that it serves as a medium to industrialisation; and the strategies and techniques applied via industrialisation could serve as a quality target for better potential entrepreneurial activities which will accelerate the pace of industrialisation in a given economy. It is a settled argument that the roles which entrepreneurs play in a given economy are essential. Entrepreneurship helps in bringing innovation to an economy. The innovation comes in the form of innovative technologies and economic production methods (Alexander [23].

Entrepreneurship implies that there are additions of innovative firms being established interval; the newly established innovative business firms place the much older firms on their toes, in terms of new techniques and strategies and increases competition in a given sector of the economy; therefore, the older firms would have little or no option than to meet up with the competition and the pressures that come along with it. Diversification of the economy has been trending amongst various economies of the world, and this could only be made possible by the concept of entrepreneurship. Diversification in new sectors of the economy has to with ways and methodologies that could be applied to in terms of industrialisation or innovation which will position the available resources into novel sectors in lieu of the already known traditional sectors effectively and efficiently (Agboli and Ukaegbu [24].

According to Fritsch, there are couples of times where the government had failed to utilise the available resources and maximise economic growth; situations and circumstances of such sort position the entrepreneur to serve a means by which various

economic problems which could not be sorted by the government are given adequate solution or remedy. A quality entrepreneur does not just rush and pop out a novel product or service in the name of innovation, as that may harm the economy; an entrepreneur experiments the new products in local markets by ascertaining fresh information and ideas with marketers, consumers, local producers, and other competitors who will aid him in making plans on diversifying his limited resources to activities that promise a higher and better productivity in return (Fritsch [25]).

### **Entrepreneurship as a conduit pipe for innovations which enhance economic growth**

There is an increase in the rate of interest being shown by the government and stakeholders in the area of entrepreneurship and development of small and medium scale businesses, in that they are now seen and utilised as solutions or tools to induce economic growth and reduce the rate of rising unemployment. Entrepreneurship has stated to be a significant or critical factor in the components that build the modern economic theories of development and growth in any given economy.

Some countries are known for traditionally based economic sectors as textiles, leather, and food processing, and these traditionally based economic sectors need a bit of innovation and technological force to meet up with the competitive demands of modern entrepreneurship which will foster and enhance economic growth (Stel, Carree, and Thurik [18]).

Therefore, in order to enhance economic growth, there is need to lend overwhelming support to the idea and concept of entrepreneurship and innovation as an avenue via which the larger mass of the populace will be pulled out from poverty hole. As said earlier, the replicative entrepreneur does not have the same full force as innovative entrepreneurship in terms of their abilities to enhance economic growth. Innovative entrepreneurship has to do with overall changes in the nature and structure of the economy, upgrade of technology and technical know-how, updated economic productivity, and valuable service provisions.

There will be more potential for economic growth when and where the governments can flexibly adapt to the dynamism that comes with technology and innovation by wholly embracing the novel adoption of machinery and equipment and a new generation of educated workers who are also technically literate (Thurik, and Wennekers [26]).

### **Entrepreneurship aids creation of jobs**

A study carried out in 2019 shows that about 22 per cent of the working-age population is creating new

businesses, and all these have increased the potentials of job creation across the globe. The argument has been regarding the fact that about 44 per cent of the entrepreneurs merely started the businesses in order to utilise the business opportunity existing in the market, and secondly that more than 30 per cent of the entrepreneurs only adopted entrepreneurship as a tool or means of survival since there is a high level of unemployment. Whatever be the case, the end justifies the means, irrespective of the motive, entrepreneurship has positioned itself as a medium of creating job opportunities (Yang, and Ping [21]).

Once entrepreneurs have entered into the market or invested in a given economy; such stimulates the rate of employment growth by generating new jobs. Let us make use the USA as a case study of how entrepreneurship can create employment and bring a great rate of reduction in the level of poverty; the highest employer of labour in most developed economies are entrepreneurs. Thus, if any country wishes to be committed towards the promotion of sustainable flow of job creation, and job opportunities, such country must allow entrepreneurship to thrive by giving it a favourable condition to exist (Hessels, & Stel [27]).

It is observed that while the working-age population in developed economies are chasing after entrepreneurial enterprises, their counter-parts in some other developing countries remain most vulnerable and unemployed. Studies show that such ugly condition can be eradicated if the working-age population, majority of which are youths below 40 years, are given a settled environment where they possibly focus on entrepreneurial activities which will create employment and reducing the rate of unemployment in pure absolute terms. Though the issue as to creating jobs in any given economy lingers on as part of the economic plan of any concerned economy, irrespective of how developed the economy is; however, entrepreneurship comes to rescue by helping to clamp down the relative pressure on the economy of a state in so far as creation of jobs is concerned (Bowen, and Clercq [28]).

The facts that entrepreneurship contributes exceedingly towards job creation shows a dual role of entrepreneurship, in that while creating jobs, the jobs being created helps in combating and reducing extreme poverty. Therefore, when entrepreneurship creates jobs by the creation of new entrepreneurial activity or the development of existing ones by making an innovative mark on it; it, in turn, brings favourable increase in the economic wealth by establishing new markets, industries, innovative technology, and at the same time, creating jobs while adding to net additional plus in real productivity, and increases in profits and income. The simple mathematics here is that as there is a numerical

increase in the number of entrepreneurs, the more likely it is to reduce economic disparities and alleviate extreme poverty (Cob & Utara [19]).

## CONCLUSION

This paper discussed that entrepreneurs / entrepreneurship have a great responsibility laid on them in the vital role that they play on the economic growth of nations through the impact they have on different variables in these economies; which culminate in further implication on the sustainable economic growth and the concomitant economic development of these economies; and thus entrepreneurship is a significant factor or critical contributor to the United Nations Plan, as entrenched in the Sustainable Development Goals (SDGs) towards global economic elevation, poverty alleviation and employment generation. Since entrepreneurship has been identified as a critical component that contributes to the enhancement of economic growth, this paper recommended that the entrepreneurs, government, investors, and all relevant stakeholders have to act to continue to sustain, promote, and improve on this role or importance of entrepreneurship in promoting the economic growth of the different economies of the world.

Finally, this recommendation can be achieved through innovative entrepreneurship educational curriculum development in educational institutions, and training, coupled with managerial and financial contributions by experienced entrepreneurs to ensure the proper practice of the knowledge that would be gained or acquired from the educational institutions and training.

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