

THE ENTREPRENEURSHIP OSMOSIS IN RELATION TO ECONOMIC GROWTH'S CONCEPTUAL FRAMEWORK

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Received 07 June 2022; Accepted 15 November 2022

Abstract:

Inducing the variables that drive economic growth and development is one of the most critical tasks of the modern economy. All three of these components of any economy rely heavily on entrepreneurship as a catalyst for economic growth, as well as a motivation for a transition toward a market economy. Entrepreneurs leverage the power of economic opportunities, reshaping the basic economy into a resourceful one in the process by laying a stable platform for economic activities with the ability to generate development opportunities, displaying the nexus between entrepreneurship and economic development. The purpose of this paper is to determine that there are two main pillars upon which a comprehensive strategy for encouraging entrepreneurship is built: improving criteria for the entrepreneurial framework and building entrepreneurial skills, both of which are based on two distinct conceptual frameworks that connect individual actions in the macroeconomics field. Using a methodology that conducts a critical analysis of key policy priorities to improve the entrepreneurial environment through a suite of entrepreneurial concept methods outlined by the Global Entrepreneurship Monitor, the key conclusions of this paper are interconnected. We need two distinct pillars as a consistent set. Considered by the policy for the following reasons: First of all, entrepreneurs do not respond to the demands of the current framework and adapt to the approach, regardless of whether they use their knowledge and motivating elements to turn their business ideas into lucrative chances. Second, entrepreneurial conduct may always be measured by individuals and their entrepreneurial spirit, knowledge, and objectives.

Key words: Economy, Entrepreneurship, Growth, Development, GEM

JEL classification: F63, L26, O11, O12

I. INTRODUCTION

Common sense, economic observation, and simple empiricism all support the argument that entrepreneurship is linked to economic growth: entrepreneurship is the process of converting insights into economic growth. Entrepreneurship is a source of innovation and development that is closely connected to flexibility and knowledge, and it is this combination that generates productivity and economic competitiveness. In an increasingly global economy, these two variables have taken on greater significance as drivers of competitiveness.

Several countries throughout the world have experienced a loss of concentration as well as a transition in industrial structure toward decentralization, which is perhaps one indicator of this trend. The idea that fostering entrepreneurship helps develop competitive intentions in the entrepreneurial ecosystem as a consequence of technical advancements and increased global competition as a result of globalization and economic liberalization is more persuasive than it has been in the former decades.

It's understandable that the global debate over the relevance of entrepreneurship in developed countries and the issue of promoting entrepreneurship appears to concern global policymakers the most. Entrepreneurship is absolutely critical in emerging economies that are attempting to integrate into the global market, since this is a key role in ensuring developed

countries' competitiveness. In the current economic climate, global entrepreneurship research is still in its infancy, striving to define the nature of entrepreneurship, its position in theoretical framework, its correlation to economic growth, and how to foster it.

According to the majority of economic, psychological and sociological studies, entrepreneurship is a process, rather than a static phenomenon. Not only mechanical economic factors related with transformation, but also decision-making issues are typically associated with entrepreneurship (Pirich and Amir, 2001). Current definitions of entrepreneurship frequently emphasize entrepreneurship's functional role, highlighting coordination, innovation, uncertainty, capital supply, decision-making, ownership, and allocation of resources (Frijijs et al., 2002). Undoubtedly, the three commonly core functions of entrepreneurship are connected to major schools of entrepreneurial philosophy:

Table no. 1. Functional roles of the entrepreneur

The functional role of the entrepreneur	School of thought
Taking risks	Cantillon - the entrepreneur is willing to take the risk associated with uncertainty.
Implementing innovation	Schumpeter - the entrepreneur generates, disseminates and applies innovative ideas.
Looking for opportunities	Kizner - the entrepreneur also perceives profit from new profit opportunities.

Source: own elaboration

Entrepreneurship is effectively understood in terms of its functional role as defined by Sanders Wenekers and Roy Thurik: "the ability and manifest availability of individuals or teams within or outside an existing organization to recognize and create new economic opportunities (new products, new production methods, new organizational schemes, new product and market combinations). Uncertainty and other hurdles to bring ideas to market by determining the location, format and use of resources and institutions (Wenekers, et al., 1999)."

Given the preceding definition, we consider that entrepreneurship is fundamentally a person's behavioral attribute. A characteristic that entrepreneurs can only display at certain moments in their careers or in relation to a particular activity.

Most theories of production, distribution, and growth revolve around the entrepreneur, which is why we believe that the most widely acknowledged justification for entrepreneurship serving as the main engine of economic advancement is Joseph Schumpeter's idea of long waves: "Everyone is an entrepreneur when he genuinely generates new combinations (Schumpeter, 1934)". In other terms, Joseph Schumpeter asserts that the process of entrepreneurial discovery that has emerged as the primary driver of economic expansion is the discovery of novel combinations of manufacturing components. In a process of creative destruction [1], these novel combinations result in superior strategies for satisfying existing demand or producing new goods, frequently rendering current technologies and goods obsolete. Consequently, the business of the innovative entrepreneur will expand by expanding the boundaries of economic activity and simultaneously gaining market share from existing suppliers. As a result, the process of creative destruction is based on entrepreneurial efforts to alter the structure of the market, which can result in additional opportunities for innovation and profit. The long-wave theory of business cycles and economic growth was developed by J. Schumpeter on the basis of the idea of creative destruction. Innovations are seen as the cause of the business cycle. These innovations involve coming up with new ideas and turning them into new products, processes, or services. This leads to the dynamic growth of the national economy as well as the employment and profits of innovative businesses (Schumpeter, 1911).

The economies of developing countries enter the industrialization stage of capitalist development as they grow as predicted by standard models of economic growth, both through the

development of expertise and the accumulation of human and physical capital. And there are qualitative changes in factors of economic growth. In industrialized countries, the process of technological advancement and the accumulation of knowledge triggered by corporate R&D efforts drive growth.

In his 1952 model, James A. Schmitz shows that entrepreneurial activity is a factor in productivity. J.A. Schmitz specifically focuses on the role that imitation of entrepreneurs plays in economic expansion in his model. This focus suggests that Schumpeter's imitative entrepreneurs, not innovative entrepreneurs, are the ones who contribute to growth because it is driven by numerous economic growth experiences. Entrepreneurs who imitate and practice existing activities are known as imitation entrepreneurs, and they frequently generate knowledge through a method known as Schmitz's practice (Schmitz, 1989).

II. ENTREPRENEURSHIP. DETERMINANT OF ECONOMIC DEVELOPMENT

Entrepreneurship is conceptually described as the action of recognizing previously untapped profit potential in order to develop fresh procedures and results. Entrepreneurship is a distinct form of business that undertakes the risks of economic development by incorporating new ideas and resources into a business idea. In the short term and in the future economy, this awaits great rewards.

Entrepreneurship and economic expansion's relationship is highlighted as entrepreneurs turn their economies into productive ones by seizing profit opportunities, constantly creating employment opportunities, and creating more economic activity to boost gross domestic product and exports. Entrepreneurship relies on a business framework that is closely linked to SMEs, which are the primary development force of the market economy and serve as catalysts for industrial expansion and economic growth, in order to position it as a true tool for stimulating self-sustaining industrial development. For this reason, most policy interventions are often aimed at stimulating entrepreneurial development through the SME environment. As a result, in the majority of developing economies, small and medium-sized enterprises (SMEs) are the subsector that receives special attention from any significant economic restructuring program that aims to increase employment, reduce poverty, accelerate industrialization, and reverse rural-to-urban migration. Entrepreneurship unquestionably possesses the potential to accelerate global development.

III. THE EMPIRICAL APPROACH TO ENTREPRENEURSHIP

A wide range of topics is covered in the empirical literature on entrepreneurship, economic growth, and the magnitude of entrepreneurial activity. For instance, while self-employment, the number of market participants (competition), or start-ups are used as indicators of entrepreneurial activities in some scientific findings, others use self-employment, the number of market participants (competition), or start-ups as an indicator (Carree et al., 1998).

The Global Entrepreneurship Monitor (GEM) [2] analysis, along with subsequent research on OECD nations, is one of the most important sources for statistics that facilitates the investigation of the interconnections between entrepreneurship and economic growth.

GEM has demonstrated over the course of all these years that there is a statistically significant relationship between the level of subsequent economic growth and the level of national entrepreneurial activity. According to GEM data, no nation has low economic growth and high entrepreneurship.

Numerous empirical studies employing various metrics of entrepreneurial activity back up this assumption. Stephen Nickell, for instance, conducted research in 1944 on the effect of market competition—defined as an increase in the number of competitors—on the development of a company's productivity performance (Nickell, 1997). Increasing the number of competitors is a potential measure of entrepreneurship, as launching a new product or starting a new business is entrepreneurial. Using data from approximately 600 British manufacturers from 1972 to 1986 and

1982 to 1994, economists have a positive effect on overall productivity gains due to an increase in the amount of opponents.

Martin A. Caree (1958), who investigates how the proportion of SMEs effects later industrial production development, also indicates that entrepreneurship and growth are positively correlated. The economist investigated whether a greater number of small businesses in the early 1990s contributed to subsequent years' higher productivity growth in manual labor in Europe, using a dataset of 14 manufacturing industries from 13 European countries. The survey's findings reveal that industries with a higher proportion of SMEs will outperform their in terms of boosting production during the upcoming three to four years than equivalents in other countries (Carree, 2002). The evidence suggests that the transition from a controlled to an entrepreneurial economy—also known as entrepreneurship's rise to prominence as an economic pillar—is taking place (Porter and Michael, 2000).

A revolution in industry structure that shifted economic activity away from large corporations and toward smaller businesses, particularly in the United States (SMEs), reflected the transition to an entrepreneurial economy that took place between the middle of the 1970s and the beginning of the 1990s.

The greater reliance on knowledge and flexibility as a factor of production induced by technical advances and intensifying global competition has resulted in the growth of SMEs and the offshoring of major corporations. SMEs appear to be well adapted to keep up with the evolution of globalization since they are versatile, innovative, and an excellent method to channel an individual's entrepreneurial mindset.

IV. CONCEPTUAL FRAMEWORKS OF THE OSMOSIS OF ENTREPRENEURSHIP WITH ECONOMIC GROWTH

Macroeconomic growth has been largely explained by two established models in recent years. Both the GEM research programs and Wennekers and Thurik (Wennekers et al, 1999 b) have proposed related framework models. By relating entrepreneurial activity to economic expansion, Wennekers and Thurik developed the following patterns:

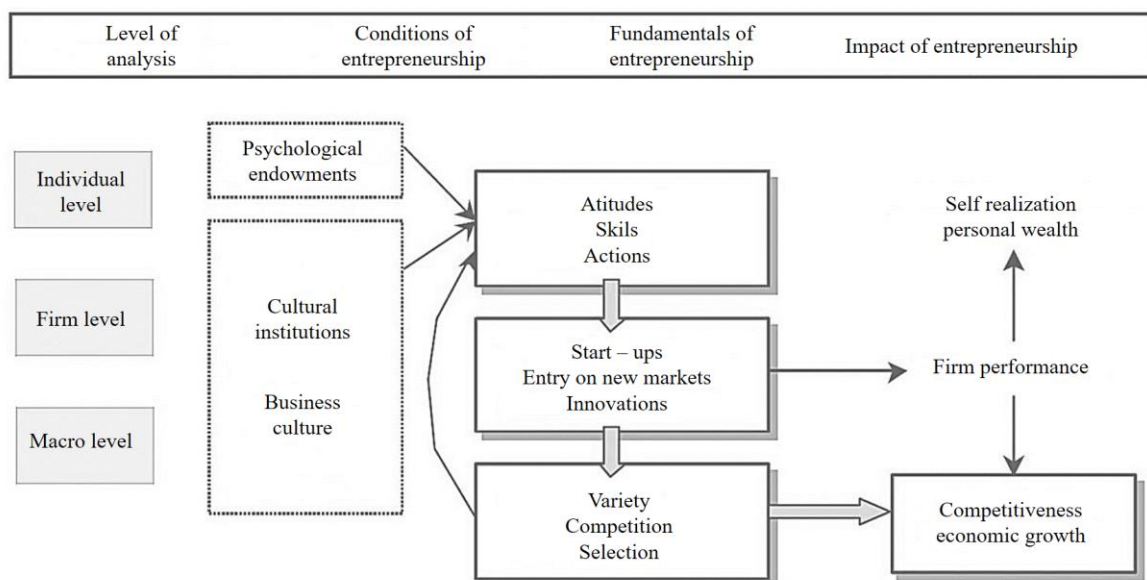


Figure no 1. Wennekers and Thurik pattern

Source: Own elaboration using data from Wennekers, Sander, and Roy Thurik (1999). Linking entrepreneurship and economic growth. *Small Business Economics* 13: 27–55

A typical entrepreneurial behavior can always be correlated with one individual entrepreneur. Nevertheless, this model distinguishes three levels, including the individual, the enterprise, and the macro level. Therefore, what stimulates entrepreneurship are people's attitudes, goals, skills, and behavioral tendencies.

However, the individual entrepreneur does not practice his entrepreneurial activity without space in a timeless vacuum, but is influenced by the context in which he acts. Cultural and institutional factors, the business environment, and macroeconomic conditions all have an impact on entrepreneurial motives and actions. Individuals can become entrepreneurs, but businesses can only achieve their goals at the corporate level. Startups and innovation are the means to put personal qualities and entrepreneurship into action.

A diversity of competing experiments, novel concepts, and initiatives is the sum of entrepreneurial activity at the industrial and economic macro level. Market diversity and change are brought about by competition: the selection of the most profitable businesses, imitations of those businesses, and the replacement of outmoded businesses.

Entrepreneurship, as a result, opens up new markets and industries, increases productivity, and transforms the economy's productivity potential. The individual levels of the aggregated process are clearly connected to important feedback mechanisms for individual entrepreneurs. Entrepreneurs can improve their skills and change their mindsets by taking lessons from their own and other people's successes and failures.

The conceptual framework of the GEM adopts a slightly different approach. It analyzes the performance of big businesses that create market possibilities for small and medium-sized businesses (SMEs), the contribution of entrepreneurship to business creation or expansion as the main engine of macroeconomic growth, and the synergistic nature of these factors.

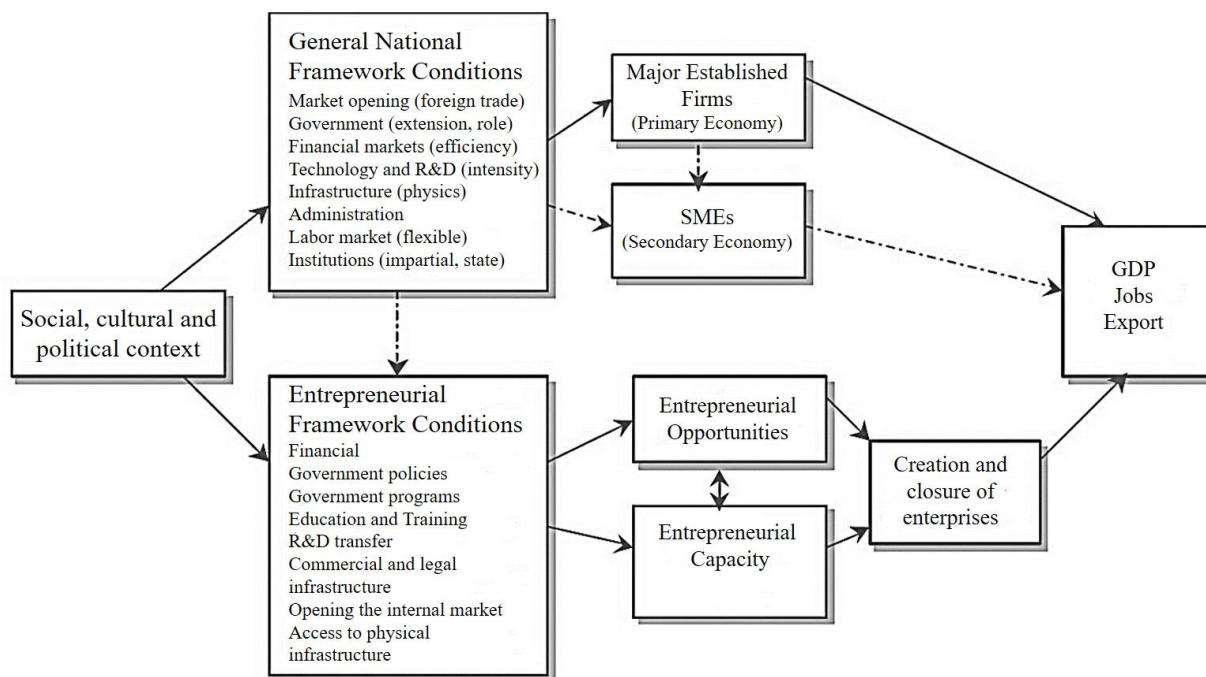


Figure no 2. The GEM conceptual framework

Source: Own elaboration using data from GEM, 2018/2019 Global Report, pg. 15

The upper part of Figure No. 2, focuses on the function played by large, established businesses. Large companies, which are typically integrated into international trade markets, can encourage self-expansion and maturation based on national framework conditions. Through technological spillovers, spin-offs, an increase in domestic demand for goods and services, and the incorporation of SMEs into supplier networks, the economic success of large corporations typically

results in the creation of new market opportunities for SMEs. However, the existence of a dynamic and competitive small and medium-sized business (SME) sector is crucial to the availability of these opportunities for domestic businesses. The second mechanism that determines economic growth is highlighted in the lower portion of the figure by entrepreneurship's role in business creation and growth. The foundations of the entrepreneurial ecosystem serve as the setting in which the entrepreneurial process takes place. But at the same time, it depends on the individual's ability, motivation, and skills to start a business in search of these opportunities as well as the emergence and existence of market opportunities. Small and medium-sized enterprises (SMEs) and new businesses can benefit from the success of large, established corporations, but they can also have an impact on the success of larger corporations. As competitive and dependable suppliers, SMEs, for instance, give large corporations an advantage in global business.

The significance of the individual level is mentioned in both of the preceding conceptual models: the mindsets, abilities, and actions of individual business owners. This is because the most commonly used policy tool to support entrepreneurship, access to finance, and macroeconomic conditions should not be the sole focus of entrepreneurial measures. Although these kinds of policies are unquestionably important in broadening the base of people who have the motivation to start a business and have access to the funds they require, they are not sufficient on their own. Because of this, we believe that the creation and growth of businesses are of the utmost importance and heavily rely on the entrepreneurial qualities of each individual entrepreneur.

V. OPTIMIZING THE CONDITIONS OF THE ENTREPRENEURIAL FRAMEWORK

Nevertheless, the economic reward structure largely determines whether entrepreneurship is primarily associated with activities that contribute to GDP or with activities that are either destructive or ineffective. As a result, policymakers are faced with the challenge of establishing framework conditions that encourage entrepreneurial activity and ensuring that entrepreneurial abilities are directed to programs that benefit community. Needless to say, almost all economic, institutional and cultural conditions affect entrepreneurship.

In a stable, low-inflation macroeconomic climate, for example, it is much easier to do business, allowing entrepreneurs to properly interpret demand and price signals and build consistent long-term business plans. However, entrepreneurship will not be completely discouraged in the lack of sound structural policy. A recent OECD study identifies three policy areas that are significantly important for entrepreneurial activities. Economic foundations (macroeconomic stability, labor markets, local infrastructure, tax levels, etc.) influence all economic activity, while political issues directly affect entrepreneurship [3].

Access to finance, facilitating corporate entry and exit, and government support programs are the core of these areas. Number no. 3 is a slightly modified framework that was created for this study to relate to the policies of OECD nations regarding the support of business creation and entrepreneurship. Even though the framework was designed primarily for OECD nations, it also addresses policy issues related to encouraging entrepreneurship in developing nations. Additionally, it may serve as a useful starting point for the development of comparable frameworks for the growth of a transition economy (OECD, 1998).

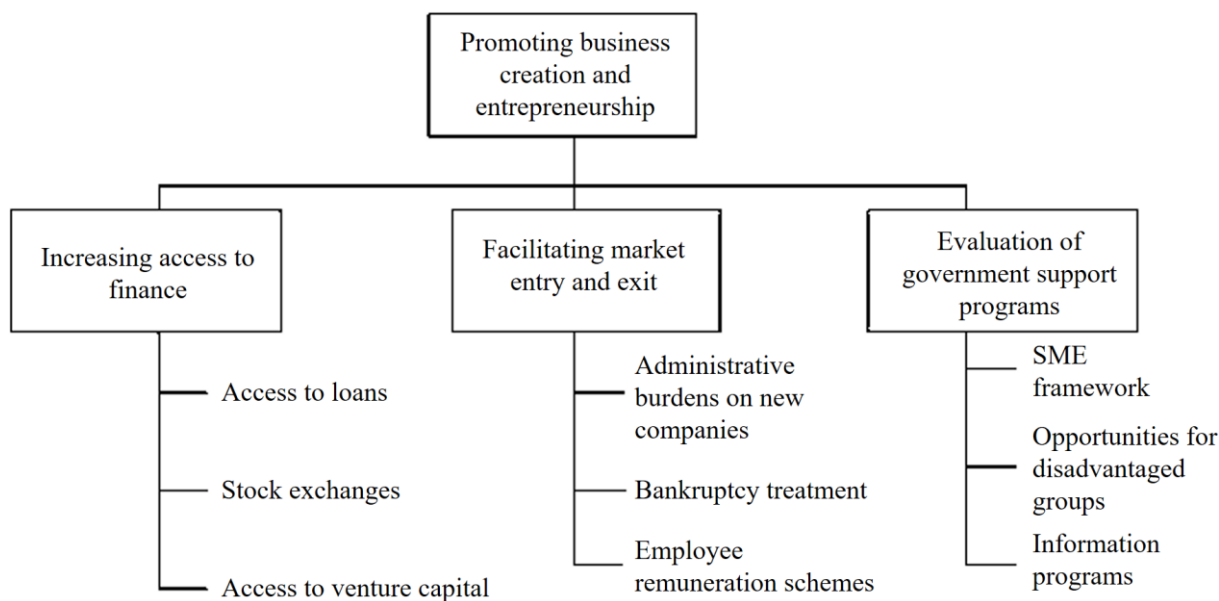


Figure no 3. The main policy areas to encourage entrepreneurial conditions

Source: Own elaboration using data from OECD Annual Report 2002, pg. 67

5.1. INCREASING ACCESS TO FINANCE

Over 20% of the entrepreneurs who were interviewed cited a lack of funding as the most significant obstacle to their entrepreneurial endeavors, according to the findings of GEM's investigations and analysis (Reynolds et al., 2002 b). Governments can increase access to start-up financing by adopting a loan guarantee system, for example, as SMEs rarely qualify for access to bank credit and other traditional debt financial products. They guarantee the payment of a percentage of a financial institution's loan under government-backed guarantees. This is especially true for innovative small businesses that rely heavily on intangible assets, operate in uncertain environments, and generate negative cash flows. Because of the risk involved, these businesses rarely receive support from the banking sector. Even though these programs can make it easier for small and medium-sized businesses (SMEs) to get financing, we think that getting access to stock markets and venture capital is a better way to get venture capital to new industries. This is especially true for innovative micro-enterprises, which are typically heavily reliant on intangible assets, subject to uncertain operating conditions, and experiencing negative cash flow and are rarely supported by banks due to the risk involved.

5.2. FACILITATING ENTRY AND EXIT

Both regulatory and administrative environments, as well as markets, are likely to shape the business environment. Administrative processes and regulations define how enterprises are organized, and fulfilling administrative and regulatory obligations is a continuing burden for businesses. Since administrative constraints may discourage entrepreneurial activity, governments ought to think about streamlining administrative procedures and improving coordination among public institutions. Governments must find a balance between facilitating entrepreneurship and advocating for the community while decreasing trade barriers.

5.3. BANKRUPTCY TREATMENT

Is a significant factor in easing the entry and exit of firms is the establishment of a system that ensures the effective closure of failed business ventures. Policies that restrict the scope of corporate reorganization or closure prevent resources from being reallocated from failing businesses to more productive ones, thereby hampering the economy's capacity for rapid adaptation. The issue of bankruptcy treatment is another excellent illustration of how institutional and legal frameworks reflect and reinforce social attitudes, discouraging entrepreneurial behavior. In several European countries, for example, insolvent enterprises are forced to pay all of their obligations, thereby preventing them from launching a business with their knowledge and experience. This legal requirement reflects the widespread belief that business failure is a personal loss with a social stigma in many European nations. On the other hand, it appears that when a business fails, it is seen as a legitimate result of a successful trial and error that can be used as a learning experience for starting a new, more successful business.

This method is also used in the US bankruptcy system, which lets people who go bankrupt start a new business. In the meantime, the system is gradually taking resources away from non-competitive businesses (OECD, 2002). Employee ownership schemes, according to experience in several nations, are another mechanism for encouraging business start-ups and can allow organizations thrive in their early years. Employee ownership schemes can also significantly motivate and retain workers, especially in the early stages of a company's development, when the viability of new businesses is uncertain and cash flows are scarce.

5.4. GOVERNMENT SUPPORT PROGRAMS

Well-functioning markets cannot be replaced by government assistance programs, and securing fundamental economic rights should be the primary objective of governments. Government assistance programs, on the other hand, can complement and reinforce other programs in order to generate an enabling environment for entrepreneurship. They could also be used as a policy tool to focus on specific problems that directly prevent people from being entrepreneurs and to improve training skills.

Examples include programs that target disadvantaged groups or businesses, such as small and medium-sized enterprises (SMEs), minorities, or women. The latent economic resources and entrepreneurial potential that are essential for long-term economic growth must be activated by encouraging disadvantaged businesses and communities to engage in entrepreneurship (Reynolds et al., 2000 a). In order for government support programs to have an effect, they need to be well-targeted. One approach of doing this is to evaluate and review current programs on a regular basis, as well as to share knowledge amongst countries and regions. By implementing information initiatives that increase awareness of the potential that entrepreneurship offers, governments can also foster entrepreneurship. They can also inform the general public about the current economic advantages offered to entrepreneurs and encourage them to take advantage of these advantages. Business opportunities are more likely to be pursued by entrepreneurs who see them. Informational programs have the advantage of not interfering with market incentives and being relatively inexpensive.

VI. CONCLUSIONS

Inducing the variables that generate economic development and growth is among the most crucial objectives of the new economy. In all of these aspects of any economy, entrepreneurship is regarded as the driving force behind economic expansion, decentralization, economic reform, and progress toward a market economy. The nexus between entrepreneurship and economic development is highlighted when entrepreneurs seize profit opportunities. This transforms the

economy's core into a productive one by laying the groundwork for economic activities that have the potential to generate development opportunities.

The purpose of this study is to ascertain whether or not there are two primary pillars upon which a comprehensive strategy for entrepreneurship development is built: enhancing entrepreneurial framework conditions and enhancing entrepreneurial skills, which are centered on two distinct conceptual frameworks that link individual actions in the macroeconomics field. The paper's significant result is that the binal particular pillars should be regarded as an interconnected framework of measures for the following reasons, using a methodology followed by a critical analysis of the main policy areas that encourage entrepreneurial conditions through the spectrum of the entrepreneurial conceptual model developed by Global Entrepreneurship Monitor: At first, entrepreneurs do not conduct business in a counteraction, but they adjust based on whether or not the circumstances are favorable; Second, entrepreneurs do not operate in a counteraction but rather adjust to whether a situation is favorable. Third, individuals' entrepreneurial attitudes, skills, and motivations can always be used to predict entrepreneurial behavior.

ENDNOTES

- [1]. The economic thinker Joseph A. Schumpeter (1883–1955) coined the term "creative disruption" to describe the process of industrial mutation that permanently alters the internal economic structure, dismantling the previous idea and introducing a new one at any time.
- [2]. The world's most comprehensive research project on entrepreneurial dynamics, the Global Entrepreneurship Monitor (GEM) provides annual assessments of the global state of entrepreneurial activity. Its headquarters are in London, England. A larger model that connects a variety of entrepreneurial framework conditions (EFCs) to TEA, entrepreneurial aspirations, technological advancement, GDP growth, and other macroeconomic variables is created using GEM data. Based on a paper by M. E. Porter and D. Sachs, the original GEM model was developed to reflect the stages of entrepreneurial development.
- [3]. With 37 member nations, the Organization for Economic Cooperation and Development (OECD) is an intergovernmental economic organization that was established in 1961 to promote global trade and economic progress. It is a platform for countries that say they are committed to democracy and market economics to compare their experiences with policy, look for solutions to common problems, find best practices, and coordinate their domestic and international policies.

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