Entrepreneurship and Economic Performance: Evidences from Selected OIC Countries

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ABSTRACT

The OIC countries encountered problems concerning reduction of poverty, filling gaps between income inequalities and achieving economic development. Thus, the main question to ask was: "What can be the solution?" Furthermore, entrepreneurship and economic growth had an increasing pattern. Hence, many scholars have highlighted the importance of economies' entrepreneurial activities and the impact of entrepreneurship and economic growth on poverty, income inequality and economic development. Meanwhile, studies that are quantitatively analyzing the interrelationship between entrepreneurship and their impact on economic performance are very limited. Therefore, the aim of this study is to fill the gap in entrepreneurship literature and to study the causal relationships between the entrepreneurship, income inequality, poverty, employment and economic growth in the panel of 22 OIC countries during 2012-2017. The results suggested that entrepreneurship plays a vital role on poverty, income inequality, employment and economic growth in the OIC countries.

ملخص

تواجه بلدان منظمة التعاون الإسلامي مشاكل تتعلق بالحد من الفقر وسد الفجوات بين التفاوتات في الدخل وتحقيق التنمية الاقتصادية. وفي هذا السياق، يتمثل السؤال الرئيسي الذي يتعين علينا أن نطرحه في: ما هو الحل الممكن؟ وعلاوة على ذلك، يعرف كل من مجالي تنظيم المشاريع والنمو الاقتصادي نمطا تصاعديا،بحيث أبرز العديد من الباحثين أهمية أنشطة تنظيم المشاريع في الاقتصادات وتأثيرها فضلا عن النمو الاقتصادي على الفقر وعدم المساواة في الدخل والتنمية الاقتصادية. وفي الوقت نفسه، فإن الدراسات التي تحلل من الناحية الكمية العلاقة المتبادلة بين

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تنظيم المشاريع وتأثيرها على الأداء الاقتصادي محدودة جدا. ولذلك، فإن الهدف من هذه الدراسة هو سد الفجوة القائمة في الأدبيات المتعلقة بتنظيم المشاريع ودراسة العلاقات السببية بين تنظيم المشاريع، وعدم المساواة في الدخل، والفقر، والعمالة، والنمو الاقتصادي في مجموعة تتكون من 22 بلدا من بلدان منظمة التعاون الإسلامي خلال فترة 2012-2017.وتشير النتائج إلى أن تنظيم المشاريع يؤدي دورا حيويا في مجالات الفقر وعدم المساواة في الدخل والعمالة والنمو الاقتصادي في بلدان المنظمة.

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ABSTRAITE

Les pays de l'OCI ont rencontré des problèmes concernant la réduction de la pauvreté, le comblement des inégalités de revenus et la réalisation du développement économique. Ainsi, la principale question à poser était la suivante : "Quelle peut être la solution ?" En outre, l'esprit d'entreprise et la croissance économique ont connu une évolution croissante. Ainsi, de nombreux chercheurs ont souligné l'importance des activités entrepreneuriales des économies et l'impact de l'entrepreneuriat et de la croissance économique sur la pauvreté, les inégalités de revenus et le développement économique. Cependant, les études qui analysent quantitativement l'interrelation entre l'entrepreneuriat et son impact sur la performance économique sont très limitées. Par conséquent, l'objectif de cette étude est de combler le vide dans la littérature sur l'entrepreneuriat et d'étudier les relations causales entre l'entrepreneuriat, l'inégalité des revenus, la pauvreté, l'emploi et la croissance économique dans le panel de 22 pays de l'OCI au cours de 2012-2017. Les résultats suggèrent que l'entrepreneuriat joue un rôle essentiel sur la pauvreté, l'inégalité des revenus, l'emploi et la croissance économique dans les pays de l'OCI.

1. Introduction

Over the past three decades, the role of entrepreneurship in economic growth has been one of the major research topics (King and Levine, 1993; Wennekers and Thurik, 1999; Acs and Szerb, 2007). In an effort to adapt to the importance of entrepreneurship, governments around the world have adopted various policies to enhance competitiveness, focusing on factors such as appropriate tax regimes, subsidies, growth and investment,

innovation, or simple business rules. Small and medium businesses (Acs and Stough, 2008).

Entrepreneurship is believed to be an important mechanism of economic growth and development (Schumpeter, 1934). Their role is to promote prosperity by creating new jobs (Van Stel and Storey, 2004), reducing unemployment (Evans and Leighton, 1989), and increase economic development and growth of a region (Acs et al, 2008). They also increase productivity by bringing innovation and speed up structural changes by forcing existing business to reform and increasing competition. However, even the previous literature examining the relation between income distribution and innovation has neglected economic agents who implement innovation: entrepreneurs. It is puzzling that existing studies have not provided much room for entrepreneurs who can mediate between income inequality and economic growth. To the best of our knowledge, only a few studies have examined the relationship between income distribution and economic growth by considering the role of entrepreneurship (Gutiérrez-Romero & Méndez-Errico, 2015; Tselios, 2011).

In the existing literature on entrepreneurship, much research has not been done the direct relationship between entrepreneurship and economic performance. Thus, the main purpose of this paper is to examine the relationship between entrepreneurship and economic growth. Contrary to previous studies, with a comprehensive insight into examining all aspects of economic performance using available data for the 22 OIC countries, the potential impacts of the entrepreneurship on the economic growth, poverty, income inequality and employment of selected OIC member countries are examined. Regarding the main purpose of the research, as well as the importance of government policies in developing entrepreneurial activities and creating an appropriate business environment, the main question to be taken into consideration is as follows:

1.   How does the entrepreneurship affect the promotion of economic performances?

2.   What is the contribution of entrepreneurship to the economic development through employment generation, GDP growth, poverty alleviation and income inequality?

The results of this study can be helpful in policymaking governments to stimulate entrepreneurial activities and economic performances. Moreover, entrepreneurs can be more effective in choosing their business and developing it, knowing the competitive advantages of countries.

The structure of the present paper organized as follows: In the second part, the theoretical foundations of the research presented in which the concept of the competitiveness of countries and the impact of the components of competitiveness on entrepreneurial activity explained; in the third section, the methodology of research and data is presented. Section three, provides a detailed explanation of the method and data collection. In the fourth section, empirical analysis is performed and in Section 5 the conclusions of the research are stated.

2. Literature and research hypotheses

The literatures about impact of entrepreneurship on poverty and income inequality are small. Kimhi (2010), mentioned in his study that the conventional wisdom has been to associate entrepreneurship with higher inequality because of the risk embodied in it. By using the inequality decomposition techniques, he has given the conclusion of his study about entrepreneurship and income inequality in Southern Ethiopia that a uniform increase in entrepreneurial income reduces per capita household income inequality but increasing the number of entrepreneurs does not affect income inequality. Moreover, using supporting policy to encourage entrepreneurship, to reducing inequality could be success in the society that low income, low wealth and relatively uneducated (Kimhi, 2010). This is supported by Quadrini (2000), Meh (2005) and Cagetti and De Nardi (2006) that entrepreneurship leads to wealth concentration due to the higher saving rate of entrepreneurs (Quadrini, 2000).

On the other hand, Rapoport (2002) and Naudé (2008) argued that inequality could encourage entrepreneurship in developing countries. However, the direction of relationship between inequality and entrepreneurship is depending on moderating factors (Meh, 2005). In line with the study of Paulson and Townsend (2004) that the financial constraint plays a key to determine the business start-up and the richer household are easier to start a business. Barnerjee and Duflo (2007) emphasize the increasing number of entrepreneurship among the poor by the explanation of characters of the poor with have few skills and little

capital which is difficult for the poor to find a job as an employee but easier to be an entrepreneur. This is supported by the work of Acs, et al (2005), that a country's higher development level can encourage and strengthen entrepreneurial activity. In the work of Deutsch and Silber (2004) by using the Kuznets curve to evaluate the impact of various income sources on inequality which is found that one of the factor that effect to declining section of the Kuznets curve is related to the declining share of entrepreneurial income.

Consequently, we can formulate the following hypothesis:

Hypothesis 1: the higher the level of entrepreneurial behavior in a country, the higher the level of economic development

Hypothesis 2: the higher level of the entrepreneurial behavior in a country, the lower the size of income inequality

Hypothesis 3: the higher level of the entrepreneurial behavior in a country, the lower the size of poverty

Hypothesis 4: the higher the level of the entrepreneurial behavior, the larger the size of the employed population

3. Methodology

To evaluate the relationship of entrepreneurship with poverty, income inequality, employment and economic growth, the researchers followed the method used by Yanya et al. (2013) which incorporated the theoretical model of Beck et al. (2005). To measure the dependent variables, the researchers used the headcount ratio, Gini coefficient, GDP per capita and total labor force; the independent variable were represented by the percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business. In addition, this paper used panel data during the specific points of time from 2012 to 2017 to run a multiple regression. The researchers applied a standard Hausman test to choose between Fixed Effects and Random Effects that would examine the magnitude and the effects of each explanatory variable to the dependent variables.

3.1. Estimation of the Model

List of selected OIC countries are shown in table 1.

Table 1: List of selected OIC countries

Bangladesh, Benin, Cameroon, Chad, Gambia, Mali, Mauritania, Mozambique, Pakistan, Senegal, Sierra Leone, Uganda, Albania, Egypt, , Indonesia, Iran, Jordan, Morocco, Tunisia, Bahrain, Qatar, United Arab Emirates

To evaluate the relationship of entrepreneurship on Economic growth, the researchers regressed the following equation:

$$GDP_{i,t} = \alpha_0 + \alpha_1 \log(TEA_{it}) + c_1 + u_{it} \quad (1)$$

$GDP_{i,t}$: Gross Domestic Product per capita

TEA_{it} : The percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business

c_1 : The idiosyncratic error with mean 0

u_{it} : The unobserved time constant characteristics of an individual, which is the effect the researchers specifically want to control in the panel data model.

To evaluate the relationship of entrepreneurship on employment, the researchers regressed the following equation:

$$LF_{it} = \alpha_0 + \alpha_1 \log(TEA_{it}) + c_1 + u_{it} \quad (2)$$

LF_{it} : Total labor force

TEA_{it} : The percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business

c_1 : The idiosyncratic error with mean 0

u_{it} : The unobserved time constant characteristics of an individual, which is the effect the researchers specifically want to control in the panel data model.

To evaluate the relationship of entrepreneurship on poverty, the researchers regressed the following equation:

$$HCR_{it} = \alpha_0 + \alpha_1 \log(TEA_{it}) + c_1 + u_{it} \quad (3)$$

HCR_{it} : Headcount Ratio

TEA_{it} : The percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business

c_1 : The idiosyncratic error with mean 0

u_{it} : The unobserved time constant characteristics of an individual, which is the effect the researchers specifically want to control in the panel data model

To evaluate the relationship of entrepreneurship on income inequality, the researchers regressed the following equation:

$$GIN_{i,t} = \alpha_0 + \alpha_1 \log(TEA_{it}) + c_1 + u_{it} \quad (4)$$

$GIN_{i,t}$: Gini Coefficient Ratio

TEA_{it} : The percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business

c_1 : The idiosyncratic error with mean 0

u_{it} : The unobserved time constant characteristics of an individual, which is the effect the researchers specifically want to control in the panel data model.

4. Results

Table 2 displays the results of the test of hypotheses 1, 2, 3, 4, that is, the independent effect of entrepreneurship on overall economic performance, that is, the effect of entrepreneurial activity on economic performances of GDP growth, Employment, poverty and incom inequality.

Table 2: estimation results for OIC countries

variables	Coef.	Z
Regression 1		
intercept	0.3013	2.47
GDP growth (annual %)	0.4067	3.23
R^2	86%	
Regression 2		
intercept	0.02576	3.22
Employers, total (% of total employment)	0.1145	4.47
R^2	83%	
Regression 3		
intercept	0.11364	2.87
Poverty (headcount ratio)	0.21328	5.45
R^2	78%	
Regression 4		
intercept	0.0024	3.26
Income inequality (Gini coefficient)	0.0276	4.35
R^2	85%	

Source: own calculations

The regression results showed that the entrepreneurship was a significant determinant of the poverty at 1% level of significance. The value for R-squared was 0.78, which meant that 78% of the changes in the headcount ratio could be explained by the changes in the entrepreneurial activities. This was a clear indication that the TEA was a significant determinant of poverty. It also showed that the said variable was negatively related to poverty.

In addition, The regression results showed that entrepreneurship was a significant determinant of the income inequality at 1% level of significance. The value for R-squared was 0.85, which meant that 85% of the changes in the gini coefficient could be explained by the changes in the entrepreneurial activites in OIC countries. This was a clear indication that the TEA was a significant determinant of income inequality. It also showed that the said variable was negatively related to income inequality.

Furthermore, The regression results showed that the Micro, Small and Medium Enterprises was significant determinant of the economic growth at 1% level of significance. The value for R-squared was 0.86, which meant that 86% of the changes in the economic growth could be explained by the changes in the Micro, Small and Medium Enterprises. This was a clear indication that the Micro, Small and Medium Enterprises were significant determinants of the economic growth. The results from the regression analysis showed that there was a negative relationships between entrepreneurship, and poverty and income inequality. It entailed that a percent (1%) increase of TEA accounted to poverty could lead to a decrease of 0.21328 and a decrease of 0.0276 to income inequality. Whereas, the analysis revealed that there was a positive relationship between the entrepreneurship and the economic growth and employment. It meant that a percent (1%) increase of TEA accounted to economic growth could lead to an increase of 0.4067. Moreover, there was a positive relationship between the entrepreneurship and create employemt. Hence, a percent (1%) increase of TEA accounted to the increase in employment of 0.1145. The researchers take these results as evidence that entrepreneurship plays a vital role on poverty, income inequality, economic growth and emloyment in OIC countries.

5. Conclusion

Limited research studies the impact of entrepreneurial activities on economic performance. This study responds to this issue by examining how entrepreneurship affects economic performance. In this regard, the relationship between entrepreneurial activities and economic performances such as poverty reduction, income inequality, employment and economic growth for 22 selected OIC countries from 2012 to 2017. As an empirical matter, the significant support was found for the notion that the firm establishment causes poverty and income inequality decrease, but economic growth and employment increase.

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