



Full Length Article

What is the role of public policies to robust international entrepreneurial activities on economic growth? Evidence from cross countries study

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Abstract

This paper contributes to the development of the field of international entrepreneurial activities by providing answers to the following questions. Does higher human development generates opportunities to entrepreneurial activities that yield economic growth? Do economic policies generate opportunity that yields higher international entrepreneurial activities? This research employed Generalized Method of Moments (GMM) estimation methodology is selected based on the long term dynamic of the entrepreneurial activities. Analysis is employed using panel data among a group of efficient countries and innovative countries during the period 2004–2008. Empirical results provide a positive significant evidence for the role of human development to accelerate entrepreneurial activities and growth in innovative driven countries. The outcomes point towards the role of policies supporting entrepreneurial activities as a vital tool to accelerate development and growth via channels such as: better education levels, enhancing research and development, attractive taxes policies and stable monetary policy. This paper provides a comparative analysis of the empirical results and presents prospective explanations for the observed relationships between different groups of countries to study the dynamics of change with relative short time series.

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1. Introduction

Entrepreneurial activities have been studied and explained by prominent researchers making the notion even more (e.g., [Baron & Ward, 2004](#); [Markman & Baron, 2003](#); [Mitchell et al., 2004](#)). According to [Schumpeter \(1934\)](#), [Kirzner \(1973\)](#), an entrepreneur's role can be explained as an innovator, risk-taker and arbitrageur who participates to economic growth through creativity, new products and services, ability to compete at the international level. In social sciences, entrepreneurship is the creation of a new organization. However, the entrepreneur's role still remains

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uncertain as it is based on the human behaviour which is complicated and depends on the entrepreneur cognitive abilities, the surrounding environment that affects personality and the economic policies implemented in the country.

Existing literature has investigated the spillover factors to entrepreneur's activities and the constraints that hinder its dynamics and outcomes. But this might not tell the full story. Awareness has begun to shift to develop entrepreneur capital skills (see, e.g., Bloom, Mahajan, McKenzie, & Roberts, 2010, Bruhn, Karlan, & Schoar, 2010). This paper is assessing whether the human capital development can drive entrepreneurial activities to enter markets and what its dynamic role to growth? Finding an answer can be a good advice for developing countries and policy makers.

Empirical studies attempt to assess the relationship between entrepreneurial activities and economic growth which is ambiguous across countries. This vague relation attracts researchers to uncover these direct and indirect factors affecting entrepreneurial activities, via adding the role of human capital development. To accelerate entrepreneurs' role, researchers urge policy makers to adopt new tools that can increase human capital (Audretsch, Caree, & Thurik, 2001; Shane & Eckhardt, 2003; Mueller, 2007; Henrekson & Johansson, 2010). This research investigates these missing links across countries and the spill over factors responsible for the growth. The extensive differences in economic performance across countries are considered a lucrative arena for research and policy makers for determining the main factors that develop these countries and help in enhancing their growth. I think that the differences between countries are rooted in the policies and regulations that encourage firms to operate successfully not only in the local but in the international market. The paper tries to answer whether technological innovation, economic growth, and improvements in productivity is correlated with human development using different groups of countries. The study's contribution is based on finding the links between entrepreneur's activities, economic growth across countries based on classifying countries according to their human development index.

The study is of value to policy maker as it highlights the important role of human capital development. Moreover, the findings provide a set of policies for governments to undertake tenable actions to accelerate the effectiveness of the institutional setting. The structure of the paper is designed as follows: Section 2 provides an overview of literature. Section 3 describes the model, data and variables used in this study; Section 5 presents the empirical results and analyses and finally Section 6 concludes the main points of the paper.

2. Literature review

Scholars from different fields are investigating the multiple impacts of entrepreneurship through different channels either operational, functional, production, per capita income, employment, standard of living and innovation to help decision makers to robust their economies. This section tries to focus on the hypothesis of the changing role of the entrepreneurship across literature. It starts by defining the relation between human capital and entrepreneurship, entrepreneurship, followed by the role of entrepreneurial activities on economic growth.

2.1. Human capital development and international entrepreneurship

Differences in human capital is based on the type of investment that the individual can acquire through education, knowledge, skills and experience through formal and informal learning that increase individual impact on different levels (Becker, 1964, 2009). The increase of investment in human capital increase individual wage, firms' productivity, and national economic growth, an evidence that shows the strong relationship between entrepreneurs and human capital (Schultz, 1961; Romer, 1989). Later, Burton-Jones and Spender (2011) suggests the existing of a strong relation between entrepreneurship and human capital, and argue the importance of a well-educated individual in the reformation of the economy. The role of human capital can be perceived across countries through measuring its impact on the national level. Measuring human capital is a vital starting point in terms of designing and implementing policies regarding human resources. Measurements are classified into conventional and non conventional.

The human capital stock has been measured via: Output-, Cost-, and Income-based approach. First, the output approach is adopted by Romer (1990) as he proposes the ratio between skilled-adults and total adults to measure the stock of human capital at the national level. Later, Romer (1990) and Barro and Lee (1993) measure the stock of human capital using "school enrolment rates" as a proxy. Moreover, the importance of education and training in the human capital field enhance the entrepreneurs' qualities and help in creating new ventures depending on their

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