

PalArch's Journal of Archaeology of Egypt / Egyptology

ANALYSIS OF THE INFLUENCE OF OPPORTUNITY ENTREPRENEUR / NECESSITY ENTREPRENEUR RATIO ON ECONOMIC GROWTH

Solihin

Faculty of Business and Management, Widyatama University, Bandung, Indonesia

ismail.solihin@widyatama.ac.id

Solihin. Analysis Of The Influence Of Opportunity Entrepreneur / Necessity Entrepreneur Ratio On Economic Growth-- Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(10), 3243-3253. ISSN 1567-214x

Keywords: Necessity Entrepreneur, Opportunity Entrepreneur, Opportunity Entrepreneur / Necessity Entrepreneur Ratio, Economic Growth, Economy Driven

ABSTRACT

This study aims to analyze the relationship between the opportunity entrepreneur/ necessity entrepreneurship ratio to economic growth in 66 countries studied by GEM in 2013 by taking the amount of economic growth in 2013. The research method used in this research is descriptive research method. The results showed (1) the opportunity entrepreneur / necessity entrepreneur ratio has a positive and unidirectional relationship with economic growth, especially in countries classified as a factor driven economy. (2) The opportunity entrepreneur / necessity entrepreneur ratio has an insignificant relationship with economic growth in countries that are classified as innovation-driven economies. (3) The variability of the relationship between the opportunity entrepreneur / necessity entrepreneur ratio is thought to be influenced by the economy driven classification of a country.

INTRODUCTION

A study conducted by the Global Entrepreneurship Monitor (GEM) (2009) differentiates the motives of entrepreneurs in conducting entrepreneurial activities into two categories. In the first category, entrepreneurs carry out entrepreneurial activities because they have no other option to earn income other than self employment, for example by trading or running other businesses. The absence of this choice can be caused by various factors, such as the high level of unemployment in a country so that a large number of the workforce is not absorbed to work in companies or the result of a change in the political climate which is very fundamental which affects the economy of a country. For example, after the fall of the Berlin Wall which was the impact of very fundamental political changes in East Germany - a lot of inefficient factories in

the East German region stopped operating and left millions of unemployed, even though previously they were the productive working class. After the factories stopped operating, most of these unemployed found themselves with no other choice to support themselves and their families except by doing business activities. The same conditions hit Indonesia during the economic crisis in the 1990s following the collapse of the New Order regime. Based on the phenomena that occur in East Germany and Indonesia as well as various other countries, it is understood that self employment will increase in developing countries and will decrease if there has been an increase in employment opportunities (Shrivastava & Shrivastava, 2013).

The second category is entrepreneurs who carry out business activities based solely on the perceived business opportunities that can be exploited to generate profits. Some of the entrepreneurs in this second category come from professionals who have the motivation to earn more and take advantage of various business opportunities by using the income or savings they have accumulated so far to run a business. These entrepreneurs are hereinafter referred to as opportunity entrepreneurs.

The results of a study conducted by the Global Entrepreneurship Monitor (GEM) in 66 countries in 2013 showed that there was an increase in the percentage of opportunity entrepreneurs in various countries surveyed by GEM compared to previous years.

The division of entrepreneurs into two categories is important, because various studies conducted by GEM have concluded that countries with a high number of necessity entrepreneurs also have relatively low levels of economic growth. Or in other words necessity entrepreneurs do not make a significant contribution to the economic growth of a country. On the other hand, countries that have a high number of opportunity entrepreneurs also have high economic growth rates.

This paper aims to analyze the relationship between the opportunity of entrepreneur / necessity entrepreneur ratio to economic growth in 66 countries studied by GEM in 2013 by taking the amount of economic growth in 2013.

LITERATURE REVIEW

Entrepreneurship was originally a phenomenon that became a study in the discipline of economics in the classical economic period which lasted from 1776 to 1871. However, studies on entrepreneurship had disappeared in the discussion of the realms of economics since the late 19th century (Bianchi & Henrekson, 2005). The role of entrepreneurs in the economy has received less attention, especially in the era of the neoclassical economy which was heavily influenced by the thinking of the economist Leon Walras, who is famous for his general equilibrium theory. Neo-classical economists argue that in the market there are always agents who will make the market in a state of balance so that the role of entrepreneurs becomes meaningless.

The study of entrepreneurship began to develop again after one of the neo-classical economists - Joseph Alois Schumpeter, has a different view from the

majority of other neo-classical economists about the role of entrepreneurship in the economy. Schumpeter explicitly explains the relationship between entrepreneurship and the economic growth of a country in his book *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest and the Business Cycle*. The publication of the book came only a few years after the United States was hit by the Great Depression in the 1930s.

The relationship between entrepreneurship and the economic growth of a country is closely related to the schools of economic theory which underlie the views of economists from certain schools of entrepreneurship. In this case there are three schools of economic theory that will be discussed in this chapter, namely the classical economic school, the neo-classical school of economics, and the Austrian school of thought. In the category of classical schools of economics, Cantillon's opinion will be presented as the economist who first put forward the term entrepreneur and the role of entrepreneur in the economy according to classical economists.

In the category of views of the neo-classical schools, Joseph A. Schumpeter's views will be specifically stated regarding the relationship between entrepreneurship and economic growth. Although Joseph Schumpeter's thinking was heavily influenced by Leon Walras' general equilibrium theory, Schumpeter had different conclusions about the role of entrepreneur in the economy than did the neo-classical economists of his time. Schumpeter mentions entrepreneurs as one of the agents who play a role in improving the economy of a country through the innovative activities they make.

The view of the Austrian school will be represented by the thought of Israel Kirzner who argues the relationship between the market process and the introduction of market opportunities based on the special characteristics possessed by an entrepreneur in recognizing business opportunities called alertness.

The views of each school of entrepreneurship will provide an overview of the perspective of each school on the relationship between entrepreneurship and economic growth.

Classic Economist's View of Entrepreneurship and Economic Growth

The important role of entrepreneurship in economic theory was first put forward by a classical French economist named Richard Cantillon in his *Essai sur la nature du commerce en general* published in 1755, after two decades of limited circulation among a handful of French economists. Although Cantillon's work had been in circulation for a long time among French economists, Cantillon's work was relatively neglected after it was published until Cantillon's work was reintroduced in the 19th century by William Stanley Jevons (Hebert & Link, 2006).

In his work, Cantillon has mentioned the existence of a market economy in which there are three economic agents, namely: (1) landowners, who have independent financial strength (2) entrepreneurs who are involved in trading activities in the market with risk and for the purpose of making a profit (3) land

tenants / agricultural entrepreneurs (hirelings), who make important decisions in order to obtain stable income in agriculture.

Cantillon calls landowners the “fashion leaders” of the market economy. Armed with the wealth and social status they have, landlords establish a consumption pattern tailored to their tastes and preferences. Although Cantillon places landlords at the top of the hierarchy of economic actors, a closer examination of Cantillon's work shows entrepreneurs as a very important economic actor. Cantillon's essay contains in it more than 100 references related to entrepreneurship as a very important figure in the economic process. Cantillon has applied general principles regarding the role of entrepreneurs who carry out all activities of production, circulation and exchange in a market economy. An entrepreneur in Cantillon's view is someone who is involved in exchange / trading for profit. In addition, entrepreneurs must also make business judgment to face uncertainty. The uncertainty that is meant in particular is the uncertainty of the selling price of the product at the time the product moves from the producer to the final buyer. As noted by Cantillon, entrepreneurs buy goods at a certain price to sell them back at a later date at an uncertain price. This uncertainty can result in entrepreneurs making profits or leading to losses.

The main producers in the Cantillon period were farmers who rented land to landlords. According to Cantillon, an agricultural entrepreneur is an entrepreneur who promises to pay a fixed amount of land rent to landlords without certainty that the entrepreneur will get a profit from his farming business. As a producer-entrepreneur, an agricultural entrepreneur must make decisions in allocating agricultural land use for various agricultural commodities, without being able to predict which land or commodity he cultivates will produce the best income. Farmers have to deal with weather and demand uncertainties that put them at risk of activity. Agricultural entrepreneurs also have to deal with the uncertainty of agricultural commodity prices. These conditions link the entrepreneurial activities undertaken by entrepreneurs with risks in a market economy.

In a market economy, agricultural entrepreneurs are linked with the final consumer by agents who also bear the risk. Agricultural goods are usually distributed by intermediaries (middlemen) who mediate the distribution of goods from producers to consumers. Because these intermediaries also face uncertainty in the market due to changes in demand in the market and changes in the supply of goods in the market which result in commodity prices, these intermediaries are also called entrepreneurs by Cantillon.

Why do entrepreneurs still carry out their activities even though they face business risks? According to Cantillon, entrepreneurs are motivated to take risks because they know that consumers will pay the extra price caused by buying small quantities of goods (the purchases are tailored to their needs) and prevent them from buying large quantities of goods and bear warehouse costs. In this case, the entrepreneur functions as an arbitrator who adjusts the supply of goods to consumer demand both in quantity, quality and time.

Cantillon's view of the entrepreneur in relation to social status has deviated from the general consensus. So far, entrepreneurs are considered to have lower social status than the military and landlords. For Cantillon, the social status of entrepreneurs is considered irrelevant. The title as an entrepreneur can be filled by people from various social strata.

Neo Classical Economist's View of Entrepreneurship and Economic Growth

There are two important issues in the view of neo-classical economists related to entrepreneurship and economic growth. First, the development of the doctrine of general equilibrium. Second, the emergence of pioneering economic development theories.

The neo-classical school of economics was heavily influenced by the thought of the French economist, Leon Walras, who introduced the general equilibrium theory. In the Walras doctrine, the market is always in a state of equilibrium and all market players are assumed to have adequate information about various business opportunities / market opportunities so that in the neo-classical doctrine there is no phenomenon which is later known as the phenomenon of information asymmetry (asymmetric information). Information asymmetry occurs when one of the parties involved in the transaction (both buyer and seller) has more information about the object being transacted so that one of the parties can benefit.

The phenomenon of information asymmetry was first put forward by Akerlof (1970) in his paper entitled "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." Akerlof wrote his paper based on the phenomenon of the used car business. Akerlof observed that used car buyers generally have less information about the car they are going to buy than sellers. Even car dealers often sell cars that have flaws in them, which in Akerlof's terminology are called "lemon" cars. This causes potential used car buyers to bid on used car prices offered by sellers at average market prices in order to avoid the risk of buying a car with shortages. In this situation, the sellers generally still make a profit because the used car prices they offer are still above the average price. But the phenomenon of potential buyers bidding at the average price will be very detrimental for sellers selling used cars of very good quality, because even very good quality cars will be offered at an average price. The phenomenon observed by Akerlof has enormous consequences for price fixing in various industries due to the information asymmetry. For example, information asymmetry is a consideration for determining the amount of premiums in the insurance industry and in determining loan interest rates in the banking industry.

Neo-classical economists argue that in a perfectly competitive market, all buyers and sellers have balanced information about the product being transacted. This condition results in entrepreneurs as arbitrators who balance demand and supply unable to get profit by taking advantage of excess demand or supply or lack of demand or supply because each party is considered to have complete information about the quantity of goods offered or requested.

The conclusion of the neo-classical economists above is very contrary to the phenomenon of asymmetric information proposed by Akerlof and reinforced by other economists such as Spence and Stiglitz. The existence of asymmetric information has provided fertile ground for entrepreneurs to develop their business because with asymmetric information, it will provide opportunities for entrepreneurs to earn profits by selling products above their basic price. Thus, entrepreneurship still has a role in the economy due to the potential for profit by utilizing price differentials that occur both due to asymmetric information and the creation of product value that is perceived by consumers (perceived value product). Entrepreneurs can sell products that consumers perceive to have a high value above their basic price so that they can generate profits for the entrepreneur.

Another important issue that surfaced in the neo-classical era was the development of studies on the theory of economic development. Economists use economic development theory to explain the relationship between various factors of production and the economic growth of a country.

The neo-classical economic theory regarding economic growth was first developed by Robert Solow (1956). He argues that a country's economic growth is a function of two inputs, namely capital and labor in a region. Apart from stating that a country's economic growth is a function of two inputs (capital and labor), a country's economic growth is influenced by the level of technology available in that country. So that, the overall economic growth of a country is influenced by the level of capital, labor and technology available in that country.

There are at least two categories of economic development theory. The first category is the theory of economic development that developed during classical and neo-classical economic times, which assumes that a country's economy will develop if the country has capital, labor and technology. This development theory model is hereinafter known as the exogenous economic development theory.

The second category is economic development theory which considers entrepreneurship as one of the factors that influence the economic growth of a country. This development theory model is hereinafter known as the endogenous economic development theory.

Joseph Alois Schumpeter's View of Entrepreneurship and Economic Growth

The economist who argues that entrepreneurship affects the economic growth of a country is Joseph A. Schumpeter. In Schumpeter's view, entrepreneurship is not only a combination of production factors, but entrepreneurship relies on innovative activities carried out by entrepreneurs. In 1934, Schumpeter put forward his thesis in his book entitled *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest and the Business Cycle*. In his book, Schumpeter mentions entrepreneurship (entrepreneurship) as an entrepreneurial activity that innovates in the form of:

1. Introduction of new products or products that have undergone improvements

2. The introduction of new methods of production
3. Opening up new markets
4. Exploit new sources of supply
5. Reengineering business management processes.

Schumpeter (2006) emphasizes the importance of innovation as an important factor that makes entrepreneurial activity a productive activity and can contribute to the economic development of a country. Innovation is assumed by Schumpeter to take the economy out of a static equilibrium to a new, higher economic balance by taking advantage of new business opportunities created by innovation as a creative destruction. In Schumpeter's view, innovation is considered as a new combination of various production factors which will result in an increase in economic output thus spurring the economic growth of a country.

Views of the Austrian School of Entrepreneurship

One of the leading Austrian economists and Nobel laureates was Israel Kizner. Kizner (1997; 2008) argues that markets are always dynamic and move towards balance. Kizner calls this phenomenon a market process. In a market that is constantly moving towards balance and is dynamic, there will always be an imbalance between supply and demand. This situation will create opportunities for entrepreneurs to make a profit. Kizner's view is very different from the neo-classical economists who view the economy as in a state of balance.

Kizner calls the expertise of entrepreneurs to take advantage of market opportunities that arise due to market processes, as alertness (carefulness of market opportunities). In this case, entrepreneurs can take advantage of market opportunities due to price differences (price differential).

Classification of Countries Based on Economic Driven

The World Economic Forum - a non-profit organization headquartered in Geneva - annually issues a Global Competitiveness Index report that analyzes various factors that are considered to be drivers of economic growth and a country's sustainable prosperity. Based on the factors that are considered to be drivers of a country's economic growth, the World Economic Forum then divides a country's development into three stages, namely: factor-driven economies, efficiency-driven economies and innovation-driven economies.

Countries that are in the development stage of factor-driven economies rely on their economic growth and competitiveness through the use of unskilled labor (unskilled labor) and their natural resources. As for the companies located in countries with this stage of development, compete with each other based on the purchase price of goods and the companies are more involved in the sale of extractive products or commodities.

The next stage of economic development is called efficiency driven economies in which a country which is at this stage of economic development emphasizes

its economic growth more on the efficiency of the production process and improving product quality.

Meanwhile, the last stage of economic development is called innovation driven economies. Countries at this stage rely more on their competitive advantage over other countries by producing new products that are different from previous products through increasingly sophisticated production processes.

RESEARCH METHODOLOGY

The research method used in this research is descriptive method. Descriptive method is used to describe the percentage of necessity entrepreneur and opportunity entrepreneur, as well as the ratio between the opportunity entrepreneur and the necessity entrepreneur. The descriptive method is also used to describe the amount of economic growth per year in the 66 countries studied.

Data on the percentage of necessity entrepreneurs, opportunity entrepreneurs and economic growth in the 66 countries studied used data in 2013 when these two entrepreneurial concepts were used.

RESULTS AND DISCUSSION

This study uses secondary data on the percentage of necessity entrepreneurs and opportunity entrepreneurs in 66 countries studied by the Global Entrepreneurship Monitor in 2013. To examine the effect of the ratio of opportunity entrepreneur and necessity entrepreneur on economic growth, data on economic growth in 2013 is used.

Table 1 shows the data on the percentage of necessity entrepreneurs, entrepreneur opportunities, the ratio of opportunity entrepreneur to necessity entrepreneurs and the economic growth of various countries in 2013.

Table 1. Data on the Percentage of Necessity Entrepreneurs, Opportunity Entrepreneur, Opportunity Entrepreneur/ Necessity Entrepreneur Ratio and Economic Growth in Various Countries in 2013

Region	Economies	Necessity-driven (necessity entrepreneur) (% from TEA)	Improvement-driven opportunity entrepreneur (% from TEA)	Ratio Improvement driven/Necessity driven	Economic Growth (%)
(1)	(2)	(3)	(4)	(5)	(6)
Latin America and Caribbean	Argentina	29.8	47.4	1.59	2.4
	Brazil	28.6	57.4	2.01	3
	Chili	20.1	57.7	2.87	4
	Colombia	18.1	26.7	1.48	4.9
	Ecuador	33.6	32.1	0.96	4.5
	Guatemala	31.4	44.2	1.41	3.7
	Jamaica	40.6	34.2	0.84	0.2
	Mexico	6.7	26.3	3.93	1.4
	Panama	18.6	39.8	2.14	6.6
	Peru	22.5	54.2	2.41	5.8
	Suriname	17.8	57.6	3.24	2.9
Uruguay	12	36.8	3.07	4.6	
Middle East and North Africa	Algeria	21.3	62.3	2.92	2.8
	Iran	38	35.8	0.94	2.5
	Israel	17.4	49.2	2.83	4.3
	Libya	8.1	60.3	7.44	2.6
Sub Sahara – Africa	Angola	26.1	40.3	1.54	5
	Botswana	26.3	52	1.98	10
	Ghana	33.3	44.1	1.32	7.3
	Malawi	43.7	29.4	0.67	5.2
	Nigeria	25.4	52.3	2.06	2.3
	South Africa	30.3	31.5	1.04	2.5
	Uganda	25.1	47.5	1.89	4.7
Zambia	38.8	37.2	0.96	5	
Asia, Pacific and South Asia	China	33.9	35.9	1.06	7.8
	India	38.8	35.9	0.93	5.5
	Indonesia	25.4	43.7	1.72	5.55
	Japan	25	59.6	2.38	2
	South Korea	36.5	51.1	1.40	3.2
	Malaysia	18.4	64.9	3.53	4.7
	Philippines	43.6	38	0.87	7.3
	Singapore	8.4	68.8	8.19	3.4
	Taiwan	28.7	45.8	1.59	2.2
	Thailand	18.7	67.8	3.63	6.5
Vietnam	25.1	62.2	2.48	5.42	
European	Belgium	29	43.9	1.51	0.2

Union	Croatia	37.4	29.8	0.79	-0.6
	Estonia	14.8	50.1	3.39	1.9
	Finland	17.9	66	3.69	-0.8
	France	15.7	60.9	3.88	0.6
	Germany	18.7	55.7	2.98	0.7
	Greece	23.5	35.8	1.52	-3.2
	Hungary	28	38.7	1.38	2.0
	Ireland	18	43.8	2.43	2.2
	Italy	18.7	18.4	0.98	-1.7
	Latvia	21.2	52.7	2.49	4.3
	Lithuania	23.3	55.2	2.37	3.6
	Luxembourg	5.6	56.6	10.11	3.7
	Netherland	8	67.1	8.39	-0.1
	Poland	47.4	32.7	0.69	1.4
	Portugal	21.4	50.7	2.37	-0.9
	Romania	31.6	31.6	1	3.5
	Slovakia	40.2	40.2	1	3.9
	Slovenia	24.1	53.4	2.22	-1.1
	Spain	29.2	33.2	1.14	-1.7
	Sweden	9.7	58.4	6.02	0.4
Great Britain	16.1	45.2	2.81	2	
Europa – Non-EU28	Bosnia and Herzegovina	58.9	22	0.37	2.4
	Macedonia	61	22.9	0.38	4.1
	Norway	4	60.8	15.2	1
	Russia	35.4	42	1.19	1.8
	Switzerland	7.5	67.2	8.96	1.9
North America	Canada	15.1	66.9	4.43	2.3
	Puerto Rico	21.5	42.9	1.99	0.8
	United States	21.2	57.4	2.71	2.5

Source: 1. Global Entrepreneurship Monitor, 2013.2013 Global Report Fifteen Years of Assessing Entrepreneurship Across the Globe, pp. 30-34

2. IMF.org, 2020. Report for Selected Countries and Subjects

As can be seen in Table 1, the ratio of opportunity entrepreneur compared to necessity entrepreneur has a positive and unidirectional relationship to economic growth. This occurs in countries in the Latin America and Caribbean regions as well as countries in Sub-Saharan Africa, most of which are still classified as factor-driven economies. However, the ratio of opportunity entrepreneur to necessity entrepreneur has an insignificant relationship with economic growth in countries that are classified as innovation-driven economies because these countries (such as the United States, Japan, Germany, Canada, England, Singapore) are those who have reached full employment in the utilization of production factors so that their economic growth is relatively small.

The relationship between the opportunity ratio of entrepreneur / necessity entrepreneur has variability to the economic growth of a country even though it

is in one region. For example, Slovakia, which is classified as an efficiency-driven economy, has an opportunity ratio of entrepreneur / necessity entrepreneur of 1, which has an economic growth rate of 3.9%. Meanwhile, Sweden, which is classified as an innovation driven economy, has an opportunity ratio of entrepreneur / necessity entrepreneur of 6.02% but has an economic growth of only 0.4%. Even though the two countries are in the same region, namely the European Union.

The same applies to several countries that are included in non-European Union regions. For example, Bosnia and Herzegovina has an opportunity entrepreneur / necessity entrepreneur ratio of 0.7 and an economic growth of 2.4%. Meanwhile, Switzerland has an opportunity ratio of entrepreneur / necessity entrepreneur of 8.96 but has an economic growth of only 1.9%.

CONCLUSION

1. The ratio of opportunity entrepreneur / necessity entrepreneur has a positive and unidirectional relationship with economic growth, especially in countries classified as factor driven economies.
2. The ratio of opportunity entrepreneur / necessity entrepreneur has an insignificant relationship with economic growth in countries classified as innovation-driven economies.
3. The relationship variability between the opportunity entrepreneur / necessity entrepreneur ratio is thought to be influenced by the economy driven classification of a country.

REFERENCES

- Global Entrepreneurship Monitor, (2009).
- Shrivastava, S., & Shrivastava, R., (2013). Role of entrepreneurship in economic development: With special focus on necessity entrepreneurship and opportunity entrepreneurship. *International Journal of Management and Social Sciences Research*, 2(2), 1-5.
- Bianchi, M., & Henrekson, M. (2005). Is neoclassical economics still entrepreneurless? *Kyklos*, 58(3), 353-377.
- Hébert, R. F., & Link, A. (2010). *Historical perspectives on the entrepreneur. Foundations and Trends in Entrepreneurship*. Massachusetts: Now Publishers Inc.
- Akerlof, G. (1970). A., 1970, The market for 'lemons': Quality uncertainty and the market mechanism. *Quarterly Journal of Economics*, 84(3), 488-500.
- Solow, R. M. (1956). A contribution to the theory of economic growth. *Quarterly Journal of Economics*, 70(1), 65-94.
- Schumpeter, J., A., (2006). *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest and the Business Cycle*. Cambridge: Harvard University Press.
- Kirzner, I. M. (1997). Entrepreneurial discovery and the competitive market process: An Austrian approach. *Journal of Economic Literature*, 35(1), 60-85.
- Kirzner, I. M. (2009). The alert and creative entrepreneur: A clarification. *Small Business Economics*, 32(2), 145-152.
- Global Entrepreneurship Monitor, (2013). *2013 Global Report Fifteen Years of Assessing Entrepreneurship Across the Globe*, pp. 30-34.