

# The Role of Entrepreneurship in Economic Inequality: A Review and Future Research Agenda

Fungleong Chan<sup>1,\*</sup>

<sup>1</sup> *Collège Alpin Beau Soleil, 1 Rue du Village, Ollon 1884, Switzerland*

\**Corresponding author. Email: VChan5@hotmail.com*

## ABSTRACT

This paper seeks to examine the role of entrepreneurship in economic inequality, whether entrepreneurial activities reduce or increase economic inequality. After clarifying the related concepts, we conducted both qualitative and quantitative analyses to evaluate the relationship between entrepreneurship and economic inequality. We summarized 313 articles and performed correlation analysis using collected data in ten typical countries in both emerging and mature economies. Our findings show that the role of entrepreneurship varies depending on the degree of economic development. Specifically, entrepreneurship can help reduce economic inequality in emerging economies, and might widen economic inequality in mature economies.

**Keywords:** *Entrepreneurship, Economic Inequality, Emerging Economies, Literature Review, Quantitative Analysis*

## 1. INTRODUCTION

Economic inequality extensively exists around the world. Over the recent years, the level of economic inequality continues to rise and it has become the defining challenge of our time. Meanwhile, under the background of globalization and technological breakthrough, entrepreneurship has been expected to play a more essential role in boosting social development and economic growth. However, apart from the numerous benefits of entrepreneurship, a much-debated question is whether it serves to reduce or increase economic inequality. Despite the importance of this subject, there remains a paucity of evidence on the specific of entrepreneurship in economic inequality, especially in emerging and mature economies. Thus, this study should make a major contribution to this area of research by comprehensively reviewing the academic progress and carrying out the correlation analysis.

## 2. DEFINITION AND ACADEMIC DISCUSSIONS

Before delving into thorough and detailed discussions, we try to provide an overview of generally accepted definitions regarding the critical terms mentioned in this article, including entrepreneurship, economic inequality, emerging economies, and mature

economies. Given the fact that many of these concepts have evolved or changed over the recent years, as well as there is a certain degree of uncertainty surrounded them among scholars, it would be essential to clarify their meanings and give explicit definitions used here in the first place. Each term will be examined carefully in turn.

### 2.1. Entrepreneurship

The concept of “entrepreneurship” was initially proposed in the business domain. It refers to the process that a person, or a group of people, takes advantage of commercial opportunities and obtains much greater value by creating a product, service, or idea [1]. It is also widely acknowledged that entrepreneurial activities are often accompanied by bearing any possible risks and enjoying most of the rewards, such as scaling the existing businesses or generating good profits. However, besides its basic business concept, entrepreneurship can also be interpreted in a more modern way nowadays, which is about changing the world by bringing social change or solving the world’s most pressing issues [2]. In this context, the ultimate purpose does not focus on earning money, but on making positive effects on how people live their lives on a daily basis.

Therefore, based on various features of the size of the operation and the final goal to achieve, entrepreneurship can be divided into the following four types [3]. The first

type is small business entrepreneurship, which means that people start new, small-scale businesses and utilize local resources, such as land, labour, and capital, to make profits. The main purpose is to make a living or meet basic needs. The second type is scalable start-up entrepreneurship, which emphasizes scalable business models and a manageable enterprise structure. Huge capital will be required from venture capitalists and employees to fuel long-term growth. These start-up entrepreneurs tend to aim high and think big, and will participate in virtually everything from drafting initial plans to driving business development. The third type is known as “large company entrepreneurship”. This usually involves huge companies or organizations that obtain a series of solid life cycles. Such entrepreneurship has self-renewal capacity through technical innovations and rapid iterations of products, with the aim to become a beacon in the industry or gain a foothold into markets. The fourth type is social entrepreneurship, which, at its most basic level, implies harnessing business principles and techniques to support social causes. As mentioned earlier, social entrepreneurs won’t judge their success solely on profit margins, but also on how lives have been improved or changed.

Although a variety of definitions of “entrepreneurship” have been put forward, this paper will adopt the concept suggested by Gartner in 1985, who defines entrepreneurship as the new creation of venture or self-employment [4]. We believe that this definition highlights its nature of value creation and is closely associated with our empirical analysis regarding economic inequality.

## **2.2. Economic Inequality**

Economic inequality is also a broad term and may be defined as the existence of the wide disparities in economic outcomes amassed by different individuals in the society [5]. On a micro level, it can also be interpreted as income inequality and wealth inequality. While income inequality means the differences of income among individuals in a population or between countries, wealth inequality looks at the concentration of wealth and how the sum of assets are unevenly distributed in the world. Although there are a number of similar terms, this paper still chose to employ “economic inequality” for its extensive use among a wide range of subjects and in numerous aspects of a particular field. Therefore, the concept here encapsulates various outcomes related with economic inequality, including wages, assets, consumption, and social welfare.

It should be noticed that this paper mainly focuses on the output of economic activities rather than input, for the economic output will eventually bring changes to the input with the passage of time [5]. Thus, this paper attempt to gain clear recognition by drawing attention to just one single component of the cycle in order to make

it more palpable, measurable, and more consistent with recent studies.

## **2.3. Emerging Economies**

This paper gives special attention to the role of entrepreneurship in diverse types of economies, especially in emerging economies and mature markets. This indicates a need to be precise about exactly what emerging economies stand for. In the literature, an emerging economy tends to be used to refer to an economy that has a significant economic increase and a huge potential for rapid growth and development [6]. It is often applied to describe developing nations that possess some characteristics of a developed country, but are not fully qualified to be classified as one [7]. Typical examples include Brazil, Russia, India, and China (BRIC), to name just a few. These fast-growing nations are important global economic powers and are becoming more integrated with the world’s economy. For instance, BRIC nations alone made up for nearly 40% of the world’s total population and have provided remarkable returns over the years, both financially and socially.

In other aspects, it can also be defined as an economy that is in the process of transitioning from a closed market with a low to middle per capita income to a modern and developed economy, as shown by high levels of personal revenues, robust financial systems, active industrial and manufacturing activities, etc. [8] Both meanings reveal the strong implications for entrepreneurship because the emerging economies provide brilliant opportunities for local and global portfolio investments.

## **2.4. Mature Economies**

The next developmental stage of an emerging economy is a mature economy, which is also a main academic area that this paper will further analyze. It refers to an advanced stage of economic development, featuring low economic growth, a constant population, reduced investment in infrastructure spending, and a continued increase in consumer spending [9]. It is clear that both population and economic growth in a mature economy remained stabilized, and large investments in infrastructure assets have shifted to more consumer spending on improving the quality of life. These mature economies are also described as the developed world with progressive technology and more sophisticated markets, including the United States, the United Kingdom, Japan, and several European countries.

## **3. RESEARCH METHODOLOGY**

In the new global economy, entrepreneurship is rapidly becoming a key instrument in economic growth, social advancement, and domestic development. There is an expansion of literature that acknowledges the significant function of entrepreneurship, especially for the

stability and healthy operation of the whole national economy. Although a considerable amount of literature has grown up around the theme of the effects of entrepreneurship on economic development, much uncertainty still exists about the precise impact and its influence mechanism. Moreover, research on this topic has mostly tended to qualitative analysis, with a limited focus on quantitative methods and appraisal to provide conclusive and scientific evidence.

Therefore, this paper aims to analyze the relationship between entrepreneurship and economic inequality in both emerging economies and mature economies, and to unravel the specific role of entrepreneurship, whether it can reduce or exacerbate inequality in different economic settings. This study is both exploratory and interpretative in nature, and a combination of qualitative and quantitative research designs is adopted to reach definite, universal conclusions.

### 3.1. Empirical Analysis

In the qualitative section, this paper will look at the full set of academic articles, papers, and journals by search keyword terms in titles, abstracts, and main content. We conducted the literature review in both Scopus from Elsevier and Web of Science, which are considered to be the two largest abstract and citation databases with enriched scholarly resources. The search keywords are divided into two categories, as shown in Table 1, to ensure our research is mutually exclusive and collectively exhaustive.

Table 1. Search Keywords

Categories	Search queries
Entrepreneurship	"entrepreneurship" OR "entrepreneurial" OR "entrepreneurial acticit*" OR "entrepreneur*"
Economic inequality	"economic inequality" OR "income inequality" OR "wealth inequality" OR "financial inequality"

The search output indicates a total of 317 document results, and after a careful review, we decided to exclude four articles because they either were unrelated with economic development or inequality, or didn't discuss the correlation between entrepreneurship and economy. Among these excluded articles, one focused on female rights and women's health, one analyzed the impact of entrepreneurship and innovation on disabled people, and two highlighted the psychological factors in business and entrepreneurial activities.

Therefore, in the final examination, we took a full scan of the selected 313 articles, and read them through to understand their theoretical basis, research methods, gathered data, dependent and independent variables, conclusions of the study, and academic value. This paper

also conducted a multi-dimension analysis across these articles to grasp the central messages. As can be seen from Figure 1, the number of documents analyzing entrepreneurship and economic inequality is on the increase year by year, which shows a rising interest among the academic community. Meanwhile, Figure 2 points out that this topic enjoys great popularity among emerging economies, such as South Africa, Brazil, Russian Federation, and China, as well as mature economies, such as the United States, the United Kingdom, Canada, and Australia.

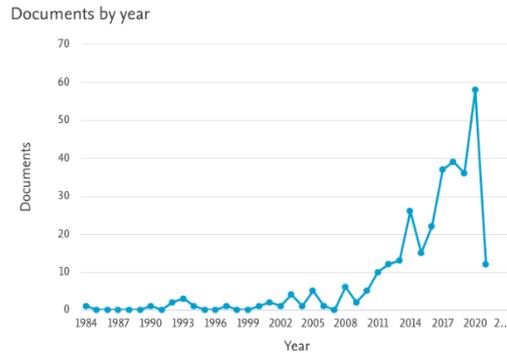


Figure 1. Documents by year

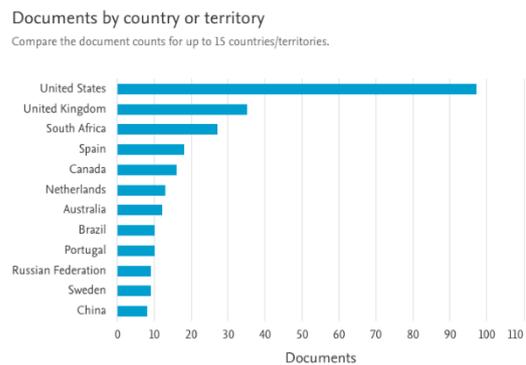


Figure 2. Documents by country or territory

When taking a close-up view of their main research objectives and content, we find out clear and distinct patterns regarding the role of entrepreneurship in economic inequality. On the one hand, there have been numerous studies suggesting that, in emerging economies, entrepreneurship is very likely to become a major reason for the reduced economic inequality. The literature indicates that the whole process of entrepreneurial actions can offer additional opportunities for national income, job creation, and other profitable resources [10]. For instance, Patal investigated the relationship between entrepreneurial initiatives and income inequality with evidence from 92 countries. Their findings proved that, in developing countries, loosening the regulation control over startups is positively related with per capita economic growth and reduced income inequality [11]. Another mechanism of how entrepreneurship eases economic imbalances is through the agglomeration of human capital and the reallocation

of available resources. Start-up companies in emerging economies usually have more inclusive systems to support human capital development, which lower the barriers for low- and middle-income households. The redistribution and redirection of income can also restore equality by providing more employment to formerly marginalized groups or communities. In this context, although entrepreneurship did not necessarily boost national economic growth, it also helps tackle the stark inequalities in societies. Lastly, as mentioned in section two, social entrepreneurship also plays a vital role in relieving the tension and stress among lots of unfair phenomena. Social entrepreneurship would take steps to promote social change and spread the benefits even more broadly. By utilizing their social networks and actively seeking diverse access to resources, these entrepreneurs tend to combine their effort and fight to break the social boundaries, achieving greater equality among communities [12].

On the other hand, however, the reverse happens in the mature economies, and entrepreneurial activities turn out to be the prime reason for widening the existing economic inequality. It is noted that when economic development has reached a level of maturity, entrepreneurship might increase economic inequality by making commerce more exclusive. In a mature market with the persistent refinement and efficiency of the social division of labor, entrepreneurial activities are more likely to appear in the formal sector instead of in lo social strata. With robust financial systems and tightened financial oversight, banks are more willing to issue loans to official registered entrepreneurial firms, and the rest of small-sized start-ups are lacking steady and sustainable financing channels. This resulted in a wider economic gap between different social brackets by concentrating the benefits and wealth within the department, and blocking the entrepreneurs in the informal sectors from taking a share of the profits [13]. Furthermore, since economic strengths sometimes engender political advantages, it is possible for influential and well-respected entrepreneurs to manipulate the market rules and to strengthen property rights in the pursuit of their self-interest. These common norms will hold a large group of entrepreneurs from having equal resources and chances to achieve economic growth, making the situation graver and tougher as time goes by.

**3.2. Quantitative Analysis**

Apart from the literature review, this paper also assesses the relationship between entrepreneurship and economic inequality by carrying out the correlation analysis and quantitative evaluations. Another advantage of quantitative analysis is to allow a deeper insight into the interactions between these two variables that are beyond qualitative observations.

The analysis was based on the conceptual framework proposed by Miguel, who measured the introduced indicators using the structural equation model when the sample size is relatively small [14]. This paper also continued to use the same indicators to quantify both entrepreneurship and economic inequality concerning authority literature in this domain.

1) **Entrepreneurship:** this paper adopted the metric “Total Early-Stage Entrepreneurial Activities” (TEA), which is a typically used indicator in the survey-based research published by Global Entrepreneurship Monitor (GEM). TEA is the percentage of entrepreneur or start-up business owners in 18-64-year-old population [15]. This indicator covers all four types of entrepreneurship, including small business entrepreneurship, scalable startup entrepreneurship, large company entrepreneurship, and social entrepreneurship.

2) **Economic inequality:** Gini index, also known as the Gini coefficient, is the commonly used indicator to gauge the distribution of income among the population. This paper also chose the Gini index as the measurement for economic inequality, as income equality is one of the most distinguishing features of economic imbalances. The dataset was obtained from worldwide government statistical agencies and recently published by the Development Research Group at World Bank. The range of the Gini index is from 0 to 1, with 0 denoting absolute equality and 1 representing extreme inequality.

After determining the variables, in order to make reliable comparisons between emerging economies and mature economies, this paper selected five countries in each category and ensured both a high degree of data integrity and consistency. For mature economies, the sample countries are the United States, the United Kingdom, Australia, Switzerland, and Canada. For emerging economies, the sample countries are China, Russian Federation, India, Brazil, and South Africa. We obtained a large number of time series data ranging from 2013 to 2017 as shown in the following tables.

**Table 2.** TEA in Emerging and Mature Economies

Type	Country	Total Entrepreneurial Activities (TEA)				
		2013	2014	2015	2016	2017
Emerging economies	United States	12.73	13.81	11.88	12.63	13.64
	United Kingdom	7.14	10.66	6.93	8.8	8.4
	Australia	14.31	13.14	12.79	14.56	12.21
	Switzerland	8.18	7.12	7.31	8.21	8.47
	Canada	12.19	13.04	14.72	16.72	18.75
Mature economies	China	14.02	15.53	12.84	10.29	9.87
	Russian Federation	5.75	4.69	5.98	6.27	7.17
	India	9.88	6.6	10.83	10.59	9.28
	Brazil	17.31	17.23	20.98	19.56	20.3

Type	Country	Total Entrepreneurial Activities (TEA)				
		2013	2014	2015	2016	2017
	South Africa	10.59	6.97	9.19	6.91	10.96

a. From Global Entrepreneurship Monitor (GEM)

**Table 3. Gini Index In Emerging And Mature Economies**

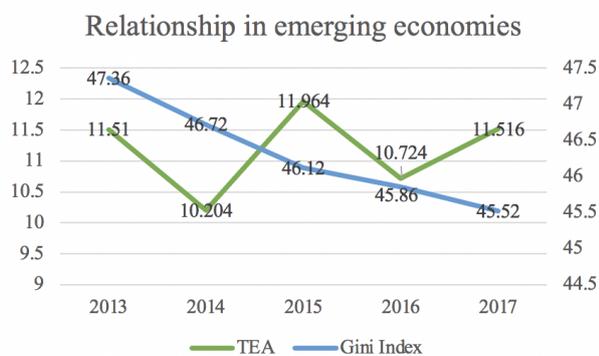
Type	Country	Gini Index				
		2013	2014	2015	2016	2017
Emerging economies	United States	40.7	41.5	41.2	41.1	41.2
	United Kingdom	33.2	34	33.2	34.8	35.1
	Australia	30.8	30.5	30.5	30.8	29.7
	Switzerland	32.5	32.5	32.3	33	32.7
	Canada	33.8	33.2	33.7	32.7	33.3
Mature economies	China	39.7	39.2	38.6	38.5	38
	Russian Federation	40.9	39.9	37.7	36.8	37.2
	India	40	39.4	39.7	38.6	38.1
	Brazil	52.8	52.1	51.9	53.3	53.3
	South Africa	63.4	63	62.7	62.1	61

a. From the World Bank

To give a clear picture of their relationship, this paper calculated the average TEA and Gini index for each economic category, and displayed them in line charts to track their changes over time in Figures 3 and 4.



**Figure 3. Relationship between TEA and Gini Index in mature economies**



**Figure 4. Relationship between TEA and Gini Index in emerging economies**

The most obvious finding to emerge from the correlation analysis is that the relationship between entrepreneurship between economic inequality is quite contrary in different economic settings. It can be seen from Figure 3 that in mature economies, as TEA increases, the Gini index also rises correspondingly. This trend indicates that entrepreneurial activities might widen the economic inequality since they are positively related with each other. However, the opposite is the case in emerging economies. According to Figure 4, when there is a growing tendency in TEA, the Gini index of emerging economies will significantly go down. These interesting findings are consistent with the previous literature review, and altogether they illuminate the specific role of entrepreneurship in economic inequality.

#### 4. CONCLUSION

The present study was designed to evaluate the relationship between entrepreneurship and economic inequality. Both qualitative and quantitative analyses indicate that it is hard to conclude a fixed pattern for their relationship, mainly because it largely depends on when, where, and how entrepreneurship takes place. In general, it seems that entrepreneurship can be a solution to solve or alleviate economic inequality in emerging economies, but is possibly the cause for greater inequality in mature markets. This work contributes to existing knowledge by providing more concrete evidence on the association's entrepreneurship and economic inequality in different economies. Looking ahead, further work needs to be done to help us establish a greater degree of accuracy on this matter.

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