Chapter

# Entrepreneurship in Emerging Economies: The Role of Innovation and Institutions

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## Abstract

Economists anticipate the future of the economy based on objective analysis, but for these forecasts to be taken into consideration by the economic environment, they must be founded on knowledge of the processes that drive rational expectations and opportunity decision-making. Due to these factors, the chapter we propose examines the emergence of these opportunities as a consequence of economic progress occurring primarily in innovation-based economies. Firstly, entrepreneurial opportunities are significantly influenced by innovation, as a result of both the numerous inventions produced by local entrepreneurs in developing economies and the entrepreneurial practices of those in advanced economies, where innovative concepts are generated and then exported to emerging economies to be implemented in particular local environments. Secondly, there are several different circumstances in which entrepreneurs innovate. A significant focus has been given to the SME sector over the last decade since it dominates emerging economies and contributes to development, but not to its maximum potential due to unique innovation challenges; lastly, strong institutional environments and efficient innovation systems are required to generate opportunities since they have a significant impact on entrepreneurs' innovative behavior and assist in explaining why individuals with basically similar characteristics act differently in various contexts.

**Keywords:** entrepreneurship, entrepreneurial ecosystem, innovation, economic growth, globalization, knowledge-based economy, learning organizations

## 1. Introduction

Sustainable and extensive growth in per capita income is the cornerstone of economic development, which is also preceded by changes in the structural nature of an economy that is centered on products with increased added value and more effective manufacturing processes. Entrepreneurs can assist the economy in growing by creating innovative strategies to redistribute resources, reforming consumption habits that do not generate the greatest benefit, and supporting structural reforms. Additionally, they might do this by accomplishing the activities involved in cost discovery, eliminating any gaps, and finalizing the economy's inputs. The potential role of entrepreneurs as innovators in emerging economies is still underestimated, despite

the fact that entrepreneurship operates in a globalized economy. Entrepreneurs are typically innovative, creating new markets and technology for future sustainable development along with procedures that aim to increase knowledge in the entrepreneurial environment, according to Joseph Schumpeter (1883–1950), who made this statement a century ago.

Nevertheless, it is a common misconception that low-income developing nations, in contrast to those with advanced economies, are unlikely to experience economic growth due to their entrepreneurial spirit. A significant proportion of the economic literature has been devoted to the conditions that drive entrepreneurs to innovate as well as the structure and evolution of national innovation systems. However, research in the nexus of entrepreneurship, innovation, and development is still in its inception. In general, this literature has focused on the innovation process and its dynamics in advanced economies. In this regard, analyses based on the indicators that constitute the entrepreneurial ecosystems attempt to provide answers to queries such as:

1. How does innovation affect development?

2. How and in what circumstances do entrepreneurs in emerging economies innovate?

3. What can be done to encourage entrepreneurs in developing countries to innovate?

In order to provide answers to the previous questions, it is necessary to define the concepts "entrepreneurship" and "innovation," as well as give a brief overview of the current collection of data regarding the influence of the determinants of innovation and the relevance of policies and the institutional environment for promoting innovation.

## 2. Entrepreneurship of the twenty-first century: Conceptual boundaries

Generally, the field of entrepreneurship analyzes the conditions under which, why, when, and how changes to produce, identify, and employ resources might lead to development. As a result, the spectrum of opportunity identification and exploitation could be used to describe a wide understanding of entrepreneurship, although not all opportunities for exploitation will automatically serve the interests of society. The intention of an entrepreneur is to engage in profitable entrepreneurial activity, which includes identifying, seizing, and using opportunities inside already-existing businesses (or by establishing new businesses) in order to foster innovation by providing innovative services or goods [1]. Before defining what is meant by this innovation, we must consider that three main conceptual approaches to entrepreneurship can be distinguished in the specialized literature. The first approach focuses on the entrepreneurial function, the second on firm performance, and the third on owner-operated firms. The functional perspective is concerned with the dynamic actors who make key decisions about investment, production, innovation, location, or research and development [2]. This definition of entrepreneurship encompasses more than just entrepreneurs running their own businesses. Additionally, it covers the various dynamic entrepreneurs operating within the organizations, whether they serve as managers of multinational corporations, state-owned firms, or non-profits.

According to this perspective, entrepreneurship relates to dynamism, innovation, and innovation as a behavioral attribute. Similar to the early Schumpeterian tradition, it is difficult to distinguish between creative activity and entrepreneurial activity since they are both forms of behavior.

The second line of research focuses on the firm as a key economic actor. These include owner-operated firms, joint-stock companies, state-owned firms, joint ventures, and subsidiaries of multinationals.

The third area of study focuses on owner-operated businesses, a significant subset of enterprises. A person who owns and actively manages his own company is referred to as an entrepreneur. Small and medium-sized enterprises (SMEs) and self-employment are frequently the subjects of this discussion. At the same time, it aims to draw attention to the difference between high-potential creative organizations that endure and flourish and stagnant enterprises that barely make it through the market or dissolve. Start-ups are a subcategory of businesses that attract special attention, particularly in the context of Global Entrepreneurship Monitor (GEM) activities, which offers global estimates of Total Early-Stage Entrepreneurial Activity (TEA) indicators. We must not overlook that occasionally extremely large organizations are also managed by their entrepreneurial owners, even if the focus of this research direction is on SMEs [3].

## 3. Innovation and entrepreneurship: The importance and effects of association

If one adheres to the Schumpeterian tradition of identifying the pursuit of new combinations as the primary attribute of entrepreneurship, it becomes challenging to distinguish between entrepreneurship and innovation because the entrepreneur is seen as the main protagonist of dynamic capitalism [4]. Entrepreneurs frequently combine new things, such as new markets, materials, goods, and organizational structures. These elements make the terms "entrepreneurship" and "innovation" nearly interchangeable. A difference between the two forms of competition—often referred to as Schumpeter Mark I and Schumpeter Mark II—must be established from the above standpoint, which is based on the later works of Joseph Schumpeter (1883–1950). Entrepreneurs and small enterprises are in charge of innovation in Mark I. The dominant players in the Schumpeterian Mark II competition are huge oligopolistic businesses. Innovation is a distinct component of entrepreneurship, therefore it develops in research and development facilities rather than in management bureaucracies where the entrepreneurial role is assigned [5].

The drawback of Mark's identification of innovation with entrepreneurship is that it prevents us from differentiating between inventive and non-creative entrepreneurship, stagnant and destructive entrepreneurship, high-growth entrepreneurship, and survival entrepreneurship. Additionally, it ignores the fact that many innovations take place in businesses that are supervised by managers as opposed to entrepreneurs. Therefore, it makes analytical sense from the standpoint of development to distinguish between entrepreneurship and innovation as separate important drivers in development. Entrepreneurial businesses are not the only sources of invention; some are significantly more inventive than others. An entrepreneurial spirit that is more noticeable in certain individuals than others can determine how inventive a nation is, which highlights the need of pinpointing the variables that influence innovative performance [6]. Some of the reasons may be attributed to aspects of the business or the owner, such as their background

and experience, the size and age of their company, or their organizational culture. However, there is also a concern regarding how market factors, government regulations, and the institutional setting may either encourage or inhibit creative behavior.

Schumpeter provided the essential justification for the concept that entrepreneurs are creative thinkers. However, Adam Smith also contributed with a crucial insight when he stated that, while acting in their own best interests, entrepreneurs may also help society as a whole. He considered that there was a correlation between the entrepreneur's level of technological innovation, specialization, market size, and performance. Thus, markets can be considered key development drivers as a result.

However, markets do not perform this function in the most underdeveloped emerging nations. As a result of inadequate infrastructure, low per capita income, defective policies, and institutional limitations, developing markets are frequently small, fragmented, and inefficient. Markets frequently operate without good governance, predictability, openness, as well as other institutional requirements. It is challenging for innovations to proliferate where markets are constrained by trade restrictions (natural obstacles like a lack of infrastructure or man-made barriers). Over time, new concepts and technology have been introduced to traders through international commerce. This is one of the factors that contribute to trade's effectiveness as a growth driver. There is almost no motivation for entrepreneurs to deliver breakthrough inventions to the company when markets are constrained by insufficient regulation or suffocated by oppressive monopolies and governments [7]. Entrepreneurs will not be motivated to invest in brand-new domestic or new global inventions if insufficient property rights and lax contractual enforcement impact the dangers of returning to inventive activities.

### 3.1 The impact of innovation on development

Modern growth and development theories are built around innovation. Innovations have replaced more conventional elements like costs, technological advancements in both products and processes, and other criteria in determining competitiveness and corporate success. The global economy has seen a rise in knowledge-based competition. Innovation and technical development are now essential components of growth, even in traditional economic sectors like the textile industry. The very same certainly applies to service industries including retail, distribution, finance, and information technology. The modernization of manufacturing processes through technology, the transition to higher value-added activities in global value chains, and changes in the structure of the economy are all linked to innovation. New generations of tools and machinery as well as younger, more educated labor generations are indicators of technological evolution [8]. As a result of formal and informal investments in research and development, as well as on-the-job learning abilities, there are also unaltered advancements in product and process technology. Consolidated technical change raises total factor productivity, explaining the variance in economic growth rates between nations. When combined with improvements in product quality and resource efficiency, this leads to a wider variety of goods and services.

Lipsey, Carlaw, and Bekar briefly summarize this significant effect of technological change as follows: "People living in the first decade of the 20th century did not know modern dental and medical equipment, penicillin, surgery, safe births, genetic disease control, personal computers, compact discs, television channels, automobiles, fast opportunities and cheap worldwide, travel, affordable universities, central heating, air conditioning ... technological change has made all of these things possible" [9].

Both the theory of endogenous growth and the theory of evolution emphasize that investments in knowledge have increasing returns because of favorable externalities and the dissemination of knowledge among economic actors, whereas traditional factors of production like labor or capital are subject to decreasing returns. According to endogenous growth theory, more developed economies gain from knowledge investment than less developed ones do due to their superior innovation processes. First, the most developed economies continue to have a significant concentration of research and development and scientific endeavors. Thus, the theory of endogenous growth aids in our understanding of the process through which rich and poor countries in the global economy experience a divergence in per capita income.

But in underdeveloped nations, creativity and technological advancements can drive fast growth. The fact that numerous poor nations have seen their economies revive at a quick pace amid an increasingly unequal global economy is something that endogenous growth theory overlooks. To accomplish fast growth, they were able to absorb in and inventively adapt foreign technological know-how. Growth and evolution theories claim that evolving economies can benefit from technological lag, gaining access to new technologies without having to face the full costs and risks of making an investment in new knowledge [10].

Clearly, the social and absorptive capacities of developing nations determine whether they can benefit from the technical delay. Therefore, innovation is vital for developing nations because it involves more than just creating new products or processes; it also involves having the ability to creatively use technology. When a nation's absorptive capacities are sufficiently advanced, extremely fast economic growth in a technologically backward nation is not exceptional.

The classic concept of macroeconomic growth is a black box that contains inputs and outputs, therefore now is the optimal time for the entrepreneur to intervene and cause change. By allowing the investigation of the traits and potentials of various business types and entrepreneurs who are in charge of capital accumulation, employee engagement, structural changes, and the creation or adoption of new technologies, the field of entrepreneurship research attempts to unlock this closed box. Entrepreneurs behave in the economic context in which they operate, responding to opportunities, challenges, uncertainties, restrictions, and incentives [11]. This quality places entrepreneurship at the core of societal advancement and economic progress.

Entrepreneurs in developing nations shape the pace of technological advancement and the structural transformation of the economy through developing, commercializing, and adopting new ideas. Technology is applied and disseminated by entrepreneurs in a way that raises the overall productivity of the components employed in the development processes, frequently through starting or growing businesses. Entrepreneurs' ingenuity, aptitude, dynamism, and inventiveness are critical elements of absorptive capacity, the defining characteristic of successful development experiences. The manner in which entrepreneurs execute this function will change depending on the stage of development a country is in [12].

The context of developing nations must be taken into consideration. Innovative entrepreneurs in less developed countries initially concentrate on making small adjustments to already-existing international projects rather than taking the risky step of developing brand-new goods and technologies. The difficulties faced by entrepreneurs will vary as the economy develops since they will gradually transition to fresh, worldwide innovations in the subsequent stages.

Even if a growing market is one of the conditions for innovation, this hypothesis will fall short given how intensely innovation is being pursued globally. Public policy

is becoming more widely acknowledged to play a vital supporting role in encouraging entrepreneurial innovation because of the beneficial externalities associated with an investment in information, technological advancement, and human capital. Entrepreneurs with a wealth of knowledge, experience, and talent are necessary, but innovation also calls for specialized labor.

The discussion of economic growth in both developed and emerging economies now regularly includes innovation policy and national innovation systems [13]. In fact, the United States, which is regarded as having one of the most entrepreneurial economies in the world, is where the idea of an innovation policy first arose. Successful entrepreneurship has relied heavily on government, investment in the knowledge base, market, and intellectual protection, and state subsidies to support business investment strategies in all advanced economies of the past several decades, particularly in the United States, where the ideology of free-market entrepreneurship is most virulent. The benefits of entrepreneur innovation in developing nations depend on the features of the innovation system in which they are engaged. A developing nation will be more capable to utilize advanced technology as knowledge enters the domestic economy faster, accelerating the rate at which the process of technological modernization takes place [14].

A greater contribution of dynamic entrepreneurship to economic growth is observed in more developed economies than in developing countries, where low levels of human and financial capital, the absence of a robust firm size distribution, and weak institutional frameworks limit the contribution of entrepreneurs. On the other hand, the weaker the innovation system, the more the efforts of individual entrepreneurs will contribute to accelerated economic development and recovery.

### 3.2 Innovation in the context of globalization

Converting innovations into reality is what is meant by the concept of innovation. A strictly technological approach focuses solely on technological innovation, which is defined as the outcome of technologically knowledge-intensive entrepreneurship, as opposed to product and process advancements. A larger definition of innovation includes the creation of new goods, methods, and sources of supply, as well as the exploitation of emerging markets and the creation of new business models [15]. More gradual developments and extreme inventions can be distinguished from one another. It is essential to remember that innovation also relates to the dissemination of novelty toward other economic actors and does not exclusively refer to the addition of innovation to an existing concept.

The contrast between inventions that are innovative on a global scale, innovative on the domestic market, or innovative on the company level, is critical in the literature on innovation. Globally breakthrough innovations are mostly found in developed economies. It is based on research and development at the frontiers of global knowledge. Innovations will likely be novel to the market or to the enterprise in emerging economies that are slightly farther away from the global technical horizon.

Market innovations in emerging economies are connected to global diffusion and technological adoption. The domestic company introduces new products to the domestic market after they have previously been manufactured overseas. At the corporate level, new innovations correspond to knowledge transfers from the internal economy. Although the idea is already on the market, a specific company is now employing it. What is novel for the company might not always be innovative in the strictest sense. It implies that certain forms of inventions, which are novel to small businesses in emerging nations, can coexist with weak economies and expanding

technological disparities on the global frontier [16]. Similar to entrepreneurship, creative performance has been measured using a range of secondary metrics, including publications, citations, R&D inputs, patents, trademarks, and trademark applications.

## 4. The new economy: theoretical framework of the knowledge-based economy

Neoclassical economics solely took into account labor and capital in recent decades, but in the modern economy, this approach is no longer regarded as useful or impartial. Like how the latter two supplanted land and labor 200 years ago, capital and energy are being replaced as the key wealth-creating assets by the sheer volume of information and new knowledge. Furthermore, technological advancements in the twenty-first century have changed the majority of wealth-generating strategies from being physical to becoming knowledge-based [17].

The main components of production are knowledge and technology. Knowledge and experience may be instantaneously disseminated around the world due to the increasing mobility of global information and labor, and any advantage a corporation acquires could be erased by overnight competition developments. The only comparative advantage a business will benefit from is its innovation process, which combines technical expertise and creative thinking to address a never-ending stream of business challenges, as well as its capacity to create value from information in the fields of knowledge-based economies and knowledge management in the new information society.

It is difficult to define the knowledge-based economy since it is impossible to specify with any degree of certainty the product that knowledge supports. Perhaps, as a result, there are few definitions that explain the knowledge-based economy in ways that could make it possible to assess and measure it. Several definitions that we thought were pertinent include:

- The knowledge economy tells the story of how modern economic growth has been fostered by the fusion of intellectual and knowledge resources with state-of-the-art technology. These intangibles include human capital, education, equity, research, design, development, and creativity [18].

- The growing knowledge intensity of economic activity and the expansion of business globalization are the two main drivers of the knowledge-based economy. The combined forces of the information technology revolution and the accelerating speed of technological change are the factors causing the increase in knowledge intensity. National and international legislation, as well as the information technology-related communication revolution, are the driving forces behind globalization [19].

It is important to keep in mind that the term *knowledge economy* actually refers to the entire global economic system, which various observers have described as a transition to an information society economy. In an interconnected, international economy where knowledge resources such as the information revolution, know-how, expertise, and intellectual property are much more important than others, the rules and practices that defined success in the industrial economy must be rewritten as part of the transition. Land, natural resources, and even labor are some examples of economic resources [20].

The regulations need to be reexamined, according to analysts in the knowledge-based economy, at the level of businesses and industries in terms of knowledge management and at the level of government policies from the perspective of a knowledge policy. Knowledge and education, also known as human capital, are fundamental concepts in this area of economic activity. Human capital can be viewed as a corporate product, as well as educational and inventive intellectual products and services, which can be exported for a high return or as a productive commodity.

Peter F. Drucker (1909–2005) first described the foundation of the knowledge economy in his book The Effective Executive (1966), where he distinguished between the conventional worker, who uses physical labor to produce goods and services, and the knowledge worker, who uses mental effort to create ideas, information, and knowledge:

> *The fifty-fold rise in the productivity of the manual worker in the manufacturing industry was the most significant and in fact unique contribution of management in the twentieth century. The most significant contribution management must make in the twenty-first century is to boost knowledge workers' and laborers' output in a similar manner. Manufacturing equipment was a company's most valuable asset in the twentieth century. Knowledge workers and their productivity will be the most important resource for any firm in the twenty-first century, whether it is for profit or not. [21]*

The transition to a knowledge-based economy is significant because it distinguishes it from the industrial economy that predominated for the previous 200 years [10]. These variations include:

The information revolution accelerated the transition to knowledge codification and raised its proportion in the knowledge stock of advanced economies. All knowledge that can be reduced to information and codified can now be distributed globally at a low cost. As a result, knowledge gains a number of physical positive qualities. Codification facilitates market transactions and accelerates the spread of knowledge. Additionally, codification reduces the significance of redundant efforts in knowledge acquisition. It minimizes knowledge dispersion by establishing connections between various topics and specializations. With these advances, the growth rate of accessible knowledge stocks is predicted to accelerate, which will be beneficial for economic progress.

Knowledge, skills, and learning—Information and communication technology have significantly decreased costs and improved organizations' capacity to codify their knowledge, process information, and distribute it. In this way, they have changed the overall inventory of knowledge's balance between codified and tacit information. Tactic knowledge in the form of the abilities required to deal with codified knowledge becomes more important than ever due to the accessibility and affordability of information access, as well as the importance of skills and competencies connected to the selection and efficient utilization of information.

The development and application of knowledge, as well as its distribution, are becoming more and more important in the knowledge-based economy. As a result, firms and entire national economies will be more successful if they are effective at gathering, assimilating, and applying knowledge as well as generating it.

### 4.1 The difference between the knowledge-based economy and the traditional economy

The knowledge-based economy differs from the traditional economy in several key aspects:

- The economy is defined by abundance rather than shortage. Information and knowledge, in contrast to most resources, can be shared and expanded by being used.

- When adequate technologies, methods, markets, and virtual organizations are developed, the effect of localization is significantly reduced in certain economic sectors. On the other hand, localization is consolidated in other economic fields by building business clusters around institutions of higher learning, such as universities and research institutions, that have achieved global recognition.

- Value and prices are highly context-dependent. As a result, the same knowledge or information may have quite different meanings to several individuals, or even the same individual at different points in time.

- When knowledge is embedded into systems or processes, its intrinsic value increases.

- In a knowledge-based enterprise, human capital, or skills, are a critical component of value, yet few companies report competency levels in annual reports.

- Increasingly, communication has been considered to be crucial to the flow of knowledge. Knowledge-based economies, therefore, place a high value on social structures, cultural environments, and other elements impacting social relations.

Decision-makers, managers, and knowledge experts must adopt new methods in order to address these features [22].

### 4.2 Determinants of the knowledge economy

Business regulations and national competitiveness are evolving as a result of at least three primary driving forces, according to economists who specialize in the knowledge-based economy [20]:

*Globalization*: The knowledge economy is also fostered by the swift globalization of economic activity. While there have been earlier times when the global economy has been relatively relaxed, the speed and scope of the current phase of globalization are unprecedented.

*Increasing Knowledge Intensity*: Over the past 20 years, the usage of information and communication technology has proliferated across all spheres of business and public life. Falling processing costs and the fast creation of apps suited to user requirements were the driving forces behind this expansion. The ability to manipulate, store, and transport massive amounts of data at extremely low cost is the economic revolution's key element.

The permeability of these technologies is an important factor as well. The application of knowledge in all sectors of the economy is substantially aided by the marginal cost of handling, storing, and transmitting information being nearly negligible, and the knowledge intensity of economic operations has significantly increased.

*Computer networks and connectivity*: Due to the growth generated by the flow of information, computer networks, and connectivity—part of the IT revolution—play a significant role in the development of each and every economy. This is something that developing nations have acknowledged, and they are actively working to leverage ICT as a platform for socioeconomic development.

E-commerce is a growing economic sector that will likely expand much more significantly in the years to come. According to estimations, there are currently hundreds of millions of Internet trade orders, but within a decade there will probably be billions. Because we now live in a networked environment, enterprises must undergo a significant transition. ICT has the power to reshape businesses, workplaces, and the global economy [23]. Geographical boundaries would vanish with the advent of the new economy, which would be represented by the growth of the Internet.

The growth of knowledge as a factor of production and its effects on skills, learning, organization, and innovation can be used to describe the evolution of the knowledge-based economy. There are several positive aspects of this form of economy, including [24]:

- The partial loss of tacit knowledge results from a change in the balance of the stock of information caused by an increase in the codification of knowledge.
- Codification encourages a change in the structure and organization of production.
- Information and communication technologies encourage the spread of knowledge through re-invention by lowering the financial outlays needed for a specific level of expertise.
- Since knowledge is not exhausted through consumption, the rate at which it is accumulating is good for economic progress.
- Codification leads to convergence, which overcomes diverse domains of expertise, decreases knowledge dispersion, and speeds up the transfer of knowledge.
- The accelerated rate of encoding and information gathering causes a shift in emphasis toward tacit abilities.
- Learning, which includes both formal schooling and learning via doing, utilizing, and interacting, is becoming more and more vital for both individuals and businesses.
- Initiative, inventiveness, problem-solving, and a willingness to adapt to change are becoming increasingly critical abilities.
- The conventional economic concept needs to be reexamined because the knowledge-based economy differs fundamentally from the resource-based system of the previous century.

## 5. The role of institutions in fostering entrepreneurship

Interactions between institutions and the business environment are also fundamental for economic and social development. The difficulties that emerge in these partnerships might inhibit entrepreneurs' desire to invest, which would be detrimental to both parties because it decreases the productivity of the businesses and consequently reduces the level of public sector funding in these circumstances, new institutional

strategies are required to address the interchange issues that stimulate economic growth and significantly affect the nature of economic development. A phenomenon that we can refer to as Institutional Economics is produced as a consequence of the role that institutions play in the development of entrepreneurship [25]. This phenomenon suggests a particular method for examining theoretical and real-world economic issues in relation to social and institutional developments. With this method, the connections between economic and non-economic processes can be better understood [26]. The functioning of phenomena including economic agent behavior, supply and demand laws, market mechanism activity, and transaction management is based on widely accepted institutions [27]. These institutions' principal purpose is to establish standards or basic rules that control behavior and influence how entrepreneurs interact with one another in the entrepreneurial ecosystem. Institutions are essentially the civic or organizational norms that facilitate interaction between entrepreneurs by helping them establish reasonable expectations that one can have toward the other.

At the same time, plays the role of controlled models of human interactions, and the term *institution* refers to both formal rules and their application characteristics as well as informal limitations. This idea also outlines a certain way that social and political connections are organized in accordance with the laws that have been developed in various domains of endeavor. Thus, it is possible to distinguish between two notions of institutions: the first refers to the idea of an institution as a set of policies guiding people's behavior and the second is the idea of an institution as a distinct entity [28]. In some circumstances, it is reasonably obvious to distinguish between institutions as a set of regulations and institutions as actual entities or organizations. This category includes businesses, labor unions, and political parties. Guidelines for how these entities should be represented are on the one hand, and the organizations that have been designated as such are on the other. The institutions that govern transactions specify whose preferences matter and how these preferences will be taken into account during the process of production, distribution, and consumption is actually the rules that govern economic interactions and relationships. By creating a solid framework for how people interact with the economy, institutions serve as a primary tool for increasing human behavior predictability and reducing uncertainty. As a result, the term institution can be defined as a system of laws that can decrease the uncertainty that is frequently linked to human conduct while initiating, launching, developing, and completing transactions [29, 30]. The analysis that tracks the linkages with various types of institutions is referred to as "the function of institutions in the impact that entrepreneurship has on economic development" [31].

The requirement for entrepreneurial education is the first aspect that stands out when considering ties with academic and research institutes. Modern civilization places higher demands on the educational system, resulting in a social structure that did not exist before. These changes are primarily brought about by the substantial developments of the last few decades and the demand for proactive, independent individuals who can integrate into society and participate in its ongoing development. In this context, educational institutions at all levels must adopt particular twenty-first-century tools and methods to provide the ideal educational environment and foster creativity, innovation, and the capacity for a global perspective [32]. The capacity to develop leadership and interpersonal skills through an entrepreneurial mindset is a significant asset that is gaining a growing amount of attention. The entrepreneurial spirit and innovation emerge in new approaches to learning, living, and working. For the incorporation of entrepreneurship and innovation [33], transdisciplinary approaches, and interactive teaching methods in education, different

models, architectures, and standards are expected. Undoubtedly, current systems must be evaluated, and the worldwide educational system needs to be fundamentally reformed. In order to provide the economic environment with a workforce that is educated and capable of fostering economic development, changes in the educational system are required at all levels [34]. These improvements should focus on the process of continuous learning as well as the essential connections and interactions between levels (secondary, high school, higher, and continuing education). On the other hand, time is critical to bear in mind this relationship's vulnerability, which is the formation of institutional commitment. Institutions of higher learning must alter their curricula to support the development of twenty-first-century competencies [35]. In this regard, institutional commitment is essential, along with clear strategies and realistic action plans. However, at moment, there is no concrete application of any discussions relating to entrepreneurship education in terms that students may use. Academic institutions must turn the debates' conclusions into practice, which involves providing students and instructors with the appropriate motivation and support. At this time, governments everywhere must act to narrow the widening competency gaps. At the highest political levels, there must be a consistent and unequivocal commitment to this. Both the strategic framework within which schools and universities can work to implement programs and activities inside their institutions, as well as a clear signal of support for entrepreneurship, should be conveyed through policies. Better action and coordination are required at the national, regional, and local levels to achieve objectives [36]. A key component of developing policies and implementing programs is including stakeholders from academia, industry, the NGO sector, and institutions.

### 5.1 Learning organizations and innovation systems

In a knowledge-based economy, companies search for connections to foster interactive learning among companies and outside partners and networks search for methods to offer complementary assets. Through these connections, businesses can access cutting-edge research findings, obtain vital technology components, reduce the costs and risks of innovation, and pool resources for production, marketing, and distribution [37]. Companies choose the tasks they will carry out on their own, collaboratively with other enterprises, with universities or research organizations, and with government support as they create new goods and processes. Thus, innovation is the outcome of various interactions between institutions and actors, which collectively make up an innovation system [38]. The interactions within these systems have an impact on how innovatively successful businesses perform, which in turn has an impact on the economy. These innovation systems are made up of the flows and relationships between emerging industry, government, and academia, as well as the advancement of science and technology. Therefore, one factor influencing prosperity is the system's ability for knowledge distribution, or its capacity to guarantee innovators' timely access to relevant knowledge resources.

In a knowledge-based economy, knowledge serves as the primary resource. The level of knowledge and information incorporation in economic activity is now so high that it results in rather significant structural and qualitative changes in how the economy functions, altering the foundation of competitive advantage. The value of knowledge has increased for all economic system participants as a result of the growing competitiveness of the global knowledge economy and our willingness to disseminate knowledge [39]. This has significant ramifications for company goals, governmental policies, as well as the institutions and processes in place to control economic behaviors.

A system of consumption and production based on intellectual capital is known as the new economy. It often makes up a sizable portion of all economic activity in developed nations. In the knowledge-based economy, intangible assets, such as the value of employees' knowledge or intellectual capital, can account for a sizeable portion of a company's worth [40]. However, businesses are not authorized to incorporate these assets on their balance sheets in accordance with generally accepted accounting policies. The global economy has transitioned to a knowledge-based economy in the digital era, bringing with it the best practices from each country's economic growth [41]. Additionally, knowledge-based development elements produce an interconnected global economy where information sources, such as human expertise, are critical drivers of economic growth and are regarded as significant economic assets.

## 6. Conclusions

Economic development benefits remarkably from entrepreneurship. The approach considered to be the most important is innovation, which includes creating new goods and procedures, finding untapped sources of supply, coming up with creative ways to manage a business, as well as leveraging on new markets. The main contribution of analyses in innovation-driven countries is a broader knowledge of the causes and effects of innovation in developing countries, as well as of the institutions and policies that promote or inhibit innovation. Three important conclusions that may be drawn from this chapter are as follows:

- In all societies and institutional frameworks, the influence of innovation is crucial. Depending on the stage of economic growth, innovation will take various forms and serve various functions. Even if they are incremental in nature, entrepreneurs in low-income developing nations provide inventions that are vital for business and development. The process through which businesses improve and put into practice the design and manufacturing of goods and services that are new to them is known as innovation in emerging countries. Numerous improvements in product quality and design, organizational changes in the manufacturing industry, innovative marketing strategies, and revolutionary production methods all assist in reducing costs, boosting productivity, adapting to fluctuating market conditions, and increasing employment. Innovation in developing nations entails modernization and an increase in technological knowledge. The assumption that innovation only matters for the most advanced economies is invalidated by these data. Innovation is essential for creating and sustaining a globalized economy. This is primarily because of the different innovations created by local entrepreneurs in emerging economies. But it also depends on business activity in developed economies, where new ideas are generated and then disseminated to emerging economies to be implemented in specific regional environments.

- Furthermore, there are several different circumstances under which entrepreneurs innovate in emerging economies. Small and medium-sized enterprises, which are prevalent in many emerging economies and contribute to growth but not ideally because of unique innovation-related challenges, have received special attention during the past 10 years. Entrepreneurial criteria including education, age, managerial experience, and access to technological infrastructure significantly drive how they respond to these challenges.

- Finally, the institutional and political environment does have a significant impact on how innovative an entrepreneur is. This aspect explains why entrepreneurs with remarkably comparable characteristics may exhibit divergent outcomes in terms of their innovative performance. To encourage innovation, a solid organizational framework and an efficient innovation infrastructure are needed.

The necessity for both direct and indirect government support for innovation is essential for sustainable development in the twenty-first-century entrepreneurial ecosystem. The business environment, grants for research and development, risk and venture capital assurance, maximizing the potential of migrant workers and the diaspora, enhancing technical and managerial education, expanding infrastructure, and active public partnerships are just a few illustrations of the several different manners this can be accomplished. By fostering competition, an adverse climate can often encourage innovative behavior, and entrepreneurs themselves can serve as catalysts for political and institutional change.

Given the current and upcoming challenges facing global development, entrepreneurial innovation is going to become increasingly important. These include ongoing socioeconomic inequalities as well as the rising susceptibility of nations to outside shocks such as financial crises, calamities, and threats like environmental issues.

Innovative entrepreneurship is fundamental to overcoming these obstacles and seizing the opportunities they offer, and the idea itself ought to be expanded. In particular, increasing roles for social entrepreneurship, public entrepreneurship, institutional entrepreneurship, and even sovereign non-state entrepreneurship are examined.

To better comprehend the innovative contributions of various business types and forms of entrepreneurship in countries with various levels of development, it is important to comprehend the current challenges:

1. Are conglomerates or SMEs the main drivers of innovation?

2. What is the innovative potential of microbusinesses in developing nations?

3. What are the contributions of SMEs and what of multinationals?

4. What part can public enterprises play in innovation?

The current chapter has improved our understanding of how different forms of entrepreneurship prosper in different environments and at different stages of development. However, we definitely must conduct additional research and analysis and look for the most appropriate patterns for different configurations and developmental stages.

It is still difficult to create institutions, groups, and regulations that successfully encourage both invention and entrepreneurship. The fact that developing nations usually lack the capacity and resources to conduct significant, evidence-based research makes this process increasingly challenging. Future research will concentrate on how to react to the junction of the fields of entrepreneurship, development economics, and innovation studies in order to support this argument.

Several dynamic influences, such technology advancement, economic fluctuations, or demographic shifts, have reshaped societies all over the world and provided new challenges as well as opportunities to business ecosystems. Governments, public and private organizations, as well as economic actors, are gradually becoming more conscious of the significance of entrepreneurship, which is seen as a multifaceted

phenomenon and one of the leading drivers of economic development on all stages, from the local to the global level.

Scientific research on entrepreneurship and economic development became more prominent in the second decade of the twenty-first century, alongside technological innovation. Both concepts have established themselves as significant research topics for economists and researchers around the world who, in the context of globalization, have worked to develop new indicators that could quantify the impacts of the two beliefs. Additionally, there is increasing interest in the nexus between entrepreneurship and economic development as a method of explaining changes in economic performance throughout time. Entrepreneurship, a common component of human activity, is critical to the growth of the economy. Today, entrepreneurship is widely recognized as an important element of economic progress on a global scale by professionals and academics everywhere.

However, entrepreneurship has both positive and negative effects on economic growth. Economic development and entrepreneurship are now closely linked in today's modern global economy, and economic progress can emerge from the creation of a critical mass of effective policies and initiatives. This transition requires the implementation of an adapted strategy and governance, which is particularly difficult for large corporations. These conglomerates will be under pressure to advocate for the establishment of a separate sector for artificial intelligence and spin-offs. To avoid the imbalance between businesses that can apply AI compared to those that cannot, it is necessary to take into consideration and leverage the fact that the overwhelming majority of AI investors are actually the leading players in the technology economy.

A significant increase in productivity results from the economic utilization of artificial intelligence. As a technical innovation, it contributes to both the inputs—consumer goods or services—and the outputs—internal processes like management, logistics, or customer service. A substantial loss of competitiveness could result from the inability to adapt to these technologies. However, it is important to consider the risks associated with economic dependency, sovereignty, and the potential for increased inequality. It is imperative to remove the possibility of turning businesses into consumers of solutions created offshore given the current structure of the digital economy. The platforming and value-capturing effects that are now characteristic of the digital economy could then be further improved by the development of artificial intelligence. Few actors in the economic arena have the data and computational resources that this development requires. The ability to interpret these technologies' significance and contents also need to be preserved due to their ability to be used as decision-supporting or even decision-making tools. This is important because the dissemination of artificial intelligence-derived technologies has the potential to cause significant social and territorial inequality, particularly because of the concentration of wealth in some areas.

The global business environment is evolving due to the digital revolution, which has changed methods and approaches for creating economic ecosystems as well as processes and systems. To be competitive in the context of global competitiveness, companies worldwide must take advantage of this new environment. The establishment of start-ups and the transformation of existing businesses through the development of new digital technologies are generally understood as examples of the digitization of entrepreneurship. These activities are perceived as a pillar of innovation, prosperity, and employment generation in many economies. As we observe a variety of global initiatives aimed at stimulating the acceleration of entrepreneurial activity, a holistic and integrated approach is required. A nation's capacity for digital entrepreneurship mainly relies on digital entrepreneurial behavior, culture, and strategies, as well as an

innovation ecosystem where governments, industries, businesses, educational institutions, and NGOs operate around each other. Entrepreneurship thrives in ecosystems where all stakeholders take an active role. Education and practice in particular should be more integrated to guarantee that future abilities meet employment prospects. Students should be given the chance to experience and practice entrepreneurship education, and the academic environment should be encouraged to connect with the solid business community to incorporate these abilities into the learning process. It is important to raise awareness and increase access to good practice models in order to motivate youngsters to reach their full potential. In this regard, it is essential to broaden partnerships among interested parties.

To ensure sustainable economic development, the strategy's actions must be focused on: fostering cooperation and relationships between institutions and the entrepreneurial ecosystem; establishing business-friendly governance by developing a dialog strategy between the factors involved (public institutions and the business environment); strengthening entrepreneurial capacities; and supporting, encouraging, and promoting local businesses by training providers. The institutions' purpose is to improve the business environment by strengthening the potential of SMEs and their role in economic growth, building confidence between the business community and the government, and overall fostering a more supportive business environment.

The qualities of the entrepreneurial ecosystem that have been emphasized in this chapter's examination of the function of institutions lead us to assume that this relationship is significant because it is a mechanism through which various participants from the public sector, the business community, and non-governmental sector cooperate to enhance the conditions for economic growth and to generate employment. In order to improve the quality of life for everyone in the community, dynamic entrepreneurial culture is built, maintained, and tangible resources are generated for the community and the business environment. The amount of time and money required to establish a strategy and a public-private partnership toward economic growth that is under the control of the community largely depends on the current condition in addition to the expertise and competence of the actors and institutions involved.

Underestimating the institutional framework is the cause of the inadequate performance of businesses in the sector since institutions' primary purpose in society is to eliminate uncertainty by creating a stable foundation for human interactions. Therefore, the slow growth of the entrepreneurial ecosystem has been primarily caused by the absence of sufficient forms of social and political relationship organization. In order to obtain an agreement on these concerns, it is fundamental that the interested parties, the entrepreneurs, are thoroughly consulted in a participatory process when formulating policies for the expansion of entrepreneurship as well as when creating institutions. In contrast to when these structures are imposed by external authorities, the establishment of local institutions that are based on the needs of the economic environment and that would benefit from improved collaboration with the locals can lead to significantly greater performances and reduced costs.

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