THE CORRELATION BETWEEN THE TYPE OF ENTREPRENEURIAL ACTIVITY AND THE LEVEL OF ECONOMIC DEVELOPMENT – PRELIMINARY EMPIRICAL ANALYSIS IN SELECTED COUNTRIES

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Abstract

Recently, a new direction of research on the connection between entrepreneurial activity and economic development has emerged. In the scientific literature that deals with the subject matter, there is a great variety of variables that express the level of entrepreneurial activity. The mentioned diversity is the result of differences in the interpretation of entrepreneurship. The research results vary depending on how entrepreneurship is interpreted, whether as a way of behaving, a business registration process, or a productive activity. This paper aims to: (a) present, in a systematic way, indicators that can be employed as direct or indirect measures of the level of entrepreneurship and (b) examine the level of their correlation with the level of economic development of the country. For the purpose of the mentioned analysis we used the Global Entrepreneurship Monitor (GEM) 2024 data relevant and comparable for 47 selected countries. The results of our preliminary research indicate that economic development has a statistically significant positive correlation with internationally oriented entrepreneurs, while showing a statistically significant negative correlation with new businesses. Based on the obtained results, the conclusion is that there cannot be a general assessment of the correlation between entrepreneurship and level of economic development. Instead, it is necessary to consider the fact that entrepreneurship is a complex phenomenon. When analysing its correlation with macroeconomic performance, one should take into account some of its specificities (which are expressed and measured by different indicators). Additionally, our findings indicate that internationally oriented entrepreneurship is more prevalent in more developed countries.

Keywords: entrepreneurship indicators, economic development, new businesses, international businesses

1. INTRODUCTION

In practice, entrepreneurship is most often identified with the process of registering one's own private business. Nevertheless, the theoretical scope of the term is much broader. In addition to the mentioned interpretation, it can be seen as a form of behaviour or as a process that brings a productive result. However, the shortcomings of the other two approaches and the difficulty of collecting data on "entrepreneurial behaviour" and "productive entrepreneurship" have led to the original interpretation being the most acceptable and widespread. Data on the number of registered businesses is publicly available in institutions at local and state levels, making the job easier for researchers.

Another approach to entrepreneurship is the behavioural approach, which implies that an entrepreneur is determined by a recognised and exploited opportunity. Here, the focus is on the individual rather than the organisation. According to this perspective, entrepreneurial behaviour can occur through the founding of a new organisation, outside of an organisation, or within an existing organisation. A specific form of entrepreneurship is internal or corporate entrepreneurship. It occurs when employees implement specific innovations and introduce changes within the company they work for. Nonetheless, entrepreneurial behaviour can also manifest outside of organisations. Exploiting an opportunity to earn profit does not necessarily have to be formal. In developing countries, it is particularly common for individuals to engage in informal (grey) market activities. They offer commodities/services without being registered for their production and sale, do not pay taxes or contributions to the state, and keep all surplus income for themselves. The range of activities carried out in the informal market is broad — from small agricultural producers selling surplus crops to experts in the field of information and communication technologies who provide services online, often taking advantage of the lack of legal regulation in the freelancing sector. Particularly problematic are individuals engaged in illegal activities and/or those who can seriously endanger the life and health of consumers of such goods/services (such as the production and distribution of narcotics, arms trafficking, and more). William Baumol (1990) referred to such activities as destructive entrepreneurship and believed

that even individuals who are ingenious and creative in finding illegal means to grow their wealth, power, and prestige can be considered entrepreneurs (p. 6).

The third approach to entrepreneurship is performance-based. Two performance criteria most often used in the literature are innovation and growth (Audretsch, 2012). Considering that Schumpeter advocated the position that what distinguishes an entrepreneur from other economic actors is their willingness to introduce innovations, it can be said that this approach is primarily rooted in Schumpeter's scientific papers. The role of the entrepreneur is to reform the production process by introducing innovations and to revolutionise the existing economic structure by destroying old things and creating new ones. That process, which he called creative destruction, represents an essential fact about capitalism (Schumpeter, 1942, p. 83). Baumol defined this form of entrepreneurship as productive entrepreneurship and emphasised that it is characterised by boldness, deviation from established business patterns and practices and constant search for introducing new products and new markets and creating new organisational forms. Some authors believe that only those entities (independent entrepreneurs or companies) that achieve a sufficiently high level of performance can be considered entrepreneurial, whereby the type of entity is irrelevant.

In academic literature, the first and third approaches to entrepreneurship are most often used, i.e. entrepreneurship based on organisational context and performance-based entrepreneurship. The group of authors preferring the first approach views entrepreneurship as the introduction of a new economic activity (Davidsson, 2005, p. 8), which means that such activity encompasses both the introduction of innovations and imitations (Koellinger, 2008). Entrepreneurs who imitate are those whose competencies and market offerings differ very little or not at all from existing organisations. Imitative businesses are acceptable from an economic standpoint because a product or production process does not need to be new to have an economic impact. Moreover, imitative ventures are not without risk. Although they do not involve the risk of novelty and discovery, they still carry investment risk, risk of leaving a secure job, risk of business failure, and loss of reputation, among others. Given that there are three different ways to interpret entrepreneurship, research papers must clearly specify which indicator (variable) is employed to measure the level of entrepreneurial activity to avoid methodological issues and problems with result interpretation. It is rather important in studies dealing with the (cause-and-effect) relationship between entrepreneurship and other phenomena. Analysing the link between entrepreneurship and economic development requires the specification of indicators to measure both observed phenomena so that adequate recommendations can be given to policymakers. Considering the above, this paper has two parallel goals: a) to offer a systematic presentation of the indicators used to measure the level of entrepreneurial activity and b) to evaluate the connection between the level of entrepreneurial activity and the level of economic development. In the following, i.e., the second part of the paper, the results of research by other authors who observed the relationship between entrepreneurship and economic development are presented, with an emphasis on the variables they used. The third part presents the methodology and data used in our preliminary research, followed by a discussion of the obtained results in the fourth section. The last, i.e. fifth part of the paper offers concluding considerations.

2. LITERATURE REVIEW

The variables most used in the literature to measure the level of entrepreneurial activity were taken from the Global Entrepreneurship Monitor (GEM) study, which collects data on entrepreneurial activity by surveying the adult population. In a 2020 paper, a group of authors examined the impact of entrepreneurial activity on economic growth. Entrepreneurial activity was measured using the "new businesses" indicator. The analysis was conducted on a sample of 74 economies, categorised by their level of economic development, over a six-year period. The results revealed a positive impact of entrepreneurship on economic growth in developed countries, and a negative impact on developing countries. The fact that the drivers of entrepreneurship in developed countries are simultaneously economically beneficial, while those in developing countries tend to hinder economic growth, suggests that promoting entrepreneurship may not be as relevant for developing economies as it is for developed ones (Almodovar-Gonzalez, Fernandez-Portillo & Diaz-Casero, 2020, p. 14). The authors emphasise that the variable "new businesses" used to measure entrepreneurial activity is of a generic type and that it has a stronger component of necessity in developing countries, and a stronger component of opportunity in developed countries. In developing countries, it tends to reflect necessity-based entrepreneurship, whereas in developed countries, it more often reflects opportunity-based entrepreneurship. Necessity-driven entrepreneurship indicates starting a business as a result of adverse economic circumstances faced by the individual. It is not about choosing between two alternatives, but about choosing the only possible option for securing

existence. It is why presumption based on necessity has a passive character. On the other hand, opportunity-motivated entrepreneurship involves recognising a perceived market gap or unmet need. It implies monitoring market demands, technological advances, and striving for innovation and growth.

Some authors have taken into account the mentioned shortcomings of the generic "new businesses" variable, so they have either omitted it or observed it in combination with other indicators. Galindo and Mendez (2014) analysed the impact of opportunity-driven entrepreneurship on economic growth in 13 developed countries over a decade. Their results indicate that higher entrepreneurial activity increases economic growth, but that there is also an inverse relationship. Other authors used the same variable. Aparicio, Urbano, and Audretsch (2015) analysed the impact of opportunity-driven entrepreneurship on economic growth in 43 countries with varying levels of economic development from 2004 to 2012. The results of their study showed there is a statistically significant and positive relationship. These findings served to suggest that policymakers should redefine their strategies to encourage this type of entrepreneurship. In terms of long-term growth, strategies that support entrepreneurship driven by exploration and evaluation of opportunities are significant. Otherwise, necessity-driven entrepreneurship may help address short-term issues, but has no impact on long-term economic growth (p. 58). The authors reached the same conclusions when they included two additional variables for measuring the level of entrepreneurial activity. In a 2016 paper, the positive impact of entrepreneurship on economic growth was confirmed, with this connection being stronger in OECD countries (Urbano & Aparicio, 2016). Entrepreneurship was measured using three variables - new businesses, opportunity-driven entrepreneurs, and necessity-driven entrepreneurs.

A group of authors combined the new businesses variable with medium-growth and high-growth entrepreneurship. These refer to entrepreneurs who intend to employ six or twenty workers, respectively, within the next five years, and can therefore be characterised as ambitious entrepreneurs. The results showed that ambitious entrepreneurship contributes more strongly to macroeconomic growth than overall entrepreneurial activity, i.e. new businesses. The performance of high-growth entrepreneurship is particularly strong for countries in transition (Stam, Suddle, Hessels & Van Stel, 2007). Nevertheless, the authors state that it would be naïve to recommend that policy focuses entirely on ambitious entrepreneurs, as economic growth is most likely to be achieved through a combination of small, fast-growing and large, mature firms. Also, one should be cautious not to consider high growth ambitions as inherently valuable because entrepreneurs can be overly ambitious relative to the financial resources they have access to, leading to the premature businesses failure. The study was conducted on a sample of 36 countries of various levels of development. In addition to the variables drawn from the GEM study, other papers on the same or similar topics have used alternative measures of entrepreneurial activity, such as the number of registered businesses, new business density (number of newly registered businesses per 1,000 working-age inhabitants), and the self-employment rate (Apostu & Gigauri, 2023; Ben Youssef, Boubaker & Omri, 2018; Castano, Mendez & Galindo, 2015; Bjornskov & Foss, 2013).

Economic development is generally expressed by variables such as GDP, GDP per capita or GDP growth rate. However, some papers examine the relationship between entrepreneurship and human development, most often measured by the Human Development Index (HDI). Rojas, Chavez-Bustamante & Rubilar-Torrealba (2024) investigated the connection between entrepreneurship and human development and concluded that human development is negatively related to new business ventures. Lower human development in a nation can encourage a higher level of entrepreneurial activity, but also a higher rate of business termination. These findings indicate a paradoxical relationship: areas with lower human development may inspire more entrepreneurial ventures due to necessity and limited employment opportunities. On the other hand, the same environment makes it harder to sustain these ventures, as evidenced by the higher rate of business closure.

The Human Development Index represents a composite measure of average achievement in three key dimensions: a long and healthy life, education, and a decent standard of living. A healthy life is measured by life expectancy, education by the average years of schooling, and the standard of living by gross national income per capita. The composite index is then calculated by aggregating these three dimensions using the geometric mean. From the above, it is evident that the Human Development Index is a more comprehensive component than GDP, as it includes both economic and social dimensions. It represents a holistic approach to understanding development, in contrast to other measures that focus solely on economic expansion. Therefore, it is significant to avoid relying exclusively on economic indicators, given the growing importance of non-economic measures (Maniyalath & Narendran, 2016).

The 2018 paper examined the impact of entrepreneurship on three dimensions of sustainable development (economy, society and ecology). The research results indicated that entrepreneurship has a positive impact on

the economic and social dimensions of sustainable development, while its impact on the environmental dimension is negative. Nevertheless, the negative impact of entrepreneurship on the environment, in turn, negatively affects both human development and economic growth (Dhahri & Omri, 2018, p. 74). Therefore, the authors suggest that entrepreneurs should focus on business ideas that balance the economic, social and environmental effects of their activities. They should also be encouraged to provide their goods and services through an environmentally friendly process or with the help of clean technologies. The analysis covered the period from 2001 to 2012, and the sample included 20 developing countries. The relationship between entrepreneurship and human development has been explored by other authors (Rani & Kumar, 2021; Ballesta, Rosales & Torres, 2020; Dvoulety, Gordievskaya & Prochazka, 2018).

3. DATA AND METHODOLOGY

Due to the existence of diverse approaches to entrepreneurship, different indicators for measuring entrepreneurial activity emerged. These range from indicators of self-employment to indicators of innovation-based entrepreneurship. Although each country has official statistics on self-employment, the number of newly registered and closed businesses, enterprise classification by size and similar indicators, almost none of them are comparable among countries, not even developed ones. A reason for this is the fact that most countries have different criteria for classifying the type and size of enterprises. Some countries use quantitative criteria to classify companies by size (number of employees, revenue, etc.), while others use a combination of quantitative and qualitative, i.e. descriptive (small market share, independence in business, etc.). For this reason, most researchers use the Global Entrepreneurship Monitor indicators. The GEM study offers the most comprehensive range of indicators and is currently the largest and most recognised international research initiative for studying the level and consequences of entrepreneurial activity (Koellinger, 2008). The main advantages of the GEM project are definition consistency and internationally comparable data. The Global Entrepreneurship Monitor was one of the first initiatives to collect harmonised international data. Today, there are other databases focusing on the unification of data on new businesses (OECD, Eurostat, World Bank), but their emphasis is on formally registered businesses, i.e. legal subjects. On the other hand, the GEM focuses on early-stage entrepreneurial activity and entrepreneurial intentions, which means it also includes informal entrepreneurship (Global Entrepreneurship Monitor, 2021, p. 21). Hence, Global Entrepreneurship Monitor data show significantly higher levels of early-stage entrepreneurship in developing economies than The World Bank formal registration data, while The World Bank formal registration data tend to be higher than GEM data for developed countries (Acs, Desai & Hessels, 2008, p. 229).

Indicators represented in the GEM study since its inception are nascent entrepreneurs, newly registered businesses, new businesses (total early-stage entrepreneurial activity) and ambitious entrepreneurs (growth-oriented entrepreneurs). Over time, some indicators have been added while others have been eliminated from the study. The value of the indicators is obtained by surveying the adult population in the countries included in the research. One of the challenges for entrepreneurship researchers is the irregular participation of countries in the study, which makes long-term analysis difficult. Table 1 shows the indicators of entrepreneurship that have been collected in recent years as part of the GEM study.

Table 1: GEM entrepreneurship indicators

Indicator	Definition
Nascent Entrepreneurship Rate	Percentage of adults aged 18-64 years who are actively involved in setting up a business they will own or co-own - nascent entrepreneurs
New Business Ownership Rate	Percentage of adults aged 18-64 years who are owner-managers of a new business, i.e. who own and manage a running business, not older than 3.5 years - newly registered businesses
Total early-stage Entrepreneurial Activity (TEA)	Percentage of adults aged 18-64 years who are either a nascent entrepreneurs or owner-managers of a new business, not older than 3.5 years - new businesses
Established Business Ownership Rate (EBOR)	Percentage of adults aged 18-64 years who own and manage businesses older than 3.5 years - established businesses

Business Services	Percentage of new businesses involved in business services
Consumer Services	Percentage of new businesses involved in consumer services
High Growth Expectation Entrepreneurial Activity	Percentage of new businesses that expect to employ six or more people five years from now - aspiring entrepreneurs
Internationally Oriented Entrepreneurial Activity	Percentage of new businesses that anticipate 25% or more revenue coming from outside their country - internationally oriented businesses
Scope (local/national/ international	Percentage of new businesses having customers only within their local area, only within their country, or those having international customers
Product/Services Impact (local/national/global)	Percentage of new businesses having products or services that are either new to the area, new to their country, or new to the world - product innovative businesses
Technology/Procedures Impact (local/national/ global)	Percentage of new businesses having technology or procedures that are either new to the area, new to their country, or new to the world - technologically innovative businesses
Business Exit Rate	Percentage of adults aged 18-64 years who have exited a business in the past 12 months, either by selling, shutting down or in another way
Exit, Business Continues	Percentage of adults aged 18-64 years who have exited a business in the past 12 months and that business has been continued
Exit, Business Does Not Continue	Percentage of adults aged 18-64 years who have exited a business in the past 12 months and that business has not been continued

Source: Adapted from Global Entrepreneurship Monitor, 2025, p. 212-213.

In addition to the above, the latest GEM report introduced several new indicators related to entrepreneurs who prioritize the use of modern technology (entrepreneurs who expect greater use of digital technology in sales, entrepreneurs who expect greater use of artificial intelligence in the implementation of their business model and strategy, entrepreneurs who consider various forms of modern communication and promotion are important for daily business – email, website and social networks). In recent years, the study has also started publishing the percentage of new businesses that consider the impact of their operations on society and/or the environment, as well as the percentage of those that prioritize this impact over profit and growth. On the other hand, several indicators that had been used for many years have been excluded from the latest reports— such as necessity-driven entrepreneurs, opportunity-driven entrepreneurs, family entrepreneurs, and internal entrepreneurs (entrepreneurs among employees).

The "new businesses" indicator is calculated as the sum of two indicators: entrepreneurs who have not yet registered their business, but have defined an idea and are in the process of registration (nascent entrepreneurs) and entrepreneurs who own and manage a running business, not older than 3.5 years (newly registered businesses). Based on that, it can be said that the “new businesses” indicator combines entrepreneurship based on entrepreneurial behaviour and entrepreneurship based on an organisational concept. Since nascent entrepreneurs do not have a legal or tax status, or any other externally visible characteristics, their number can only be determined through surveys. Along with growth-oriented entrepreneurs (entrepreneurs aiming to grow through employment), the "new businesses" indicator is one of the most commonly used indicators for measuring the level of entrepreneurial activity, and will therefore be the subject of further analysis in this paper. In recent years, in the GEM study, growth-oriented entrepreneurship has been measured as the percentage of new businesses that expect to employ six or more workers in the next five years of operation, while previously this indicator included three groups: a) businesses that expected to employ up to five workers, b) businesses that expected to employ from five to twenty workers and c) businesses that expected to employ twenty or more workers.

The “established businesses” indicator represents the percentage of the adult population that owns and manages a business older than 3.5 years. Some authors

consider this indicator as an alternative to sustainable entrepreneurship (Stephan & Uhlaner, 2010, p. 1348). Established businesses ensure the majority of jobs in the economy, as well as employment stability, and the survival of companies on the market should be one of the key political goals. The importance of this indicator is also reflected in the fact that, when compared with the rate of new businesses, a high ratio of new to established businesses may indicate difficulties in business survival, sometimes due to an unfavourable entrepreneurial environment. Internationally oriented businesses, according to the standards of the GEM study, are those that plan to generate 25% or more of their revenue in the foreign market. Internationalisation contributes to market expansion and provides access to new resources and talents, which results in increased income and opportunities for growth and development of the company. Furthermore, entering the foreign market enables taking advantage of economies of scale, extends the life cycle of products and improves competitiveness.

The following section of the paper examines the relationship between entrepreneurship and the level of economic development. The level of entrepreneurial activity is expressed through four GEM indicators: new businesses, established businesses, ambitious entrepreneurs and internationally oriented businesses. Economic development is measured using the Human Development Index (HDI), with the aim of capturing not only the economic but also the social dimension of development. Data were obtained from the GEM study and the Human Development Report for 2025 and include 47 countries.[26]. The relationship is measured by the Pearson correlation coefficient for each pair of variables (new businesses - Human Development Index, established businesses - Human Development Index, ambitious entrepreneurs - Human Development Index, internationally oriented businesses - Human Development Index), and is calculated using the following formula:

$$r = \frac{\sum(x_i-\overline{x})(y_i-\overline{y})}{\sqrt{\sum(x_i-\overline{x})^2 \ \sum(y_i-\overline{y})^2}}$$

in which x_i and y_i represent the values of the variables (level of entrepreneurial activity and human development index) for a specific economy, and $\overline{x}$ i $\overline{y}$ are their mean values.

4. RESULTS AND DISCUSSION

Table 2 presents Pearson's correlation coefficients for all pairs of variables.

Table 2: Correlation matrix

	New_bu~s	Establ~s	Ambiti~s	Intern~s	HDI
New_busine~s	1.0000				
Establishe~s	0.3601*	1.0000			
	0.0129				
Ambitious_~s	0.6515*	0.4229*	1.0000		
	0.0000	0.0031			
Internatio~s	-0.1507	-0.0700	0.0678	1.0000	
	0.3119	0.6401	0.6509		
HDI	-0.2683*	0.0141	-0.0352	0.5562*	1.0000
	0.0714	0.9259	0.8163	0.0001	

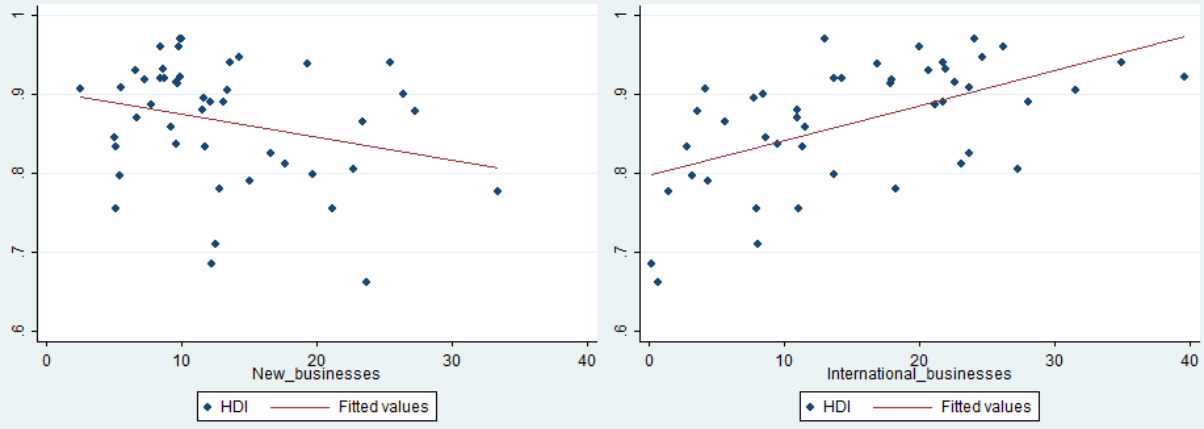
Source: Author's calculation

The results of the correlation analysis indicate that the Human Development Index is statistically significantly related to new businesses and internationally oriented businesses. The difference lies in the fact that the relationship is negative in the first case (r = -0.2683, p-value = 0.0714), and positive in the second (r = 0.5562, p-

[26] The countries included in the sample are Argentina, Armenia, Austria, Belarus, Bosnia and Herzegovina, Canada, Chile, China, Costa Rica, Croatia, Cyprus, Ecuador, Egypt, Estonia, France, Germany, Greece, Guatemala, Hungary, India, Israel, Italy, Jordan, Kazakhstan, Latvia, Lithuania, Luxembourg, Mexico, Morocco, Norway, Oman, Poland, Puerto Rico, Qatar, Romania, Saudi Arabia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Thailand, Ukraine, United Arab Emirates, United Kingdom and United States of America.

value = 0.0001). These results are presented graphically with a scatter plot diagram, which shows that the points connecting the percentage of new businesses and the Human Development Index fit a line with a slight negative slope, i.e. the points linking the percentage of internationally oriented businesses and the Human Development Index fit a line with a positive slope.

Graph 1: Entrepreneurial activity and Human Development Index, 2024.



Source: Author's calculation

The negative correlation between new businesses and the Human Development Index can be explained by considering the type of entrepreneurial activity that predominates in certain countries. The economies that record the highest rates of new businesses are those with a lower level of development, predominantly from Latin America and Asia. According to 2024 data, the highest rates of new businesses there are in Ecuador – 33.4%, Chile – 27.2%, Saudi Arabia – 26.4%, Guatemala – 23.7%, Argentina – 23.4%, Bosnia and Herzegovina – 22.7%, Jordan – 21.1%, Brazil – 20.3%, Thailand – 19.7%, etc. (GEM, 2025). Given the low levels of development in the listed economies, these data imply that this type of entrepreneurship is necessity-driven. Economies with a lower level of development provide fewer opportunities for employment and career development, so the population is forced to start their own business ventures with the aim of securing existence for themselves and their families. Lacking knowledge and experience to run a business, such businesses fail more often, as confirmed by the business exit rates. These are the highest in countries with lower development levels: Ecuador – 9.5%, Jordan – 9.1%, Brazil – 7.4%, etc. (percentage of adults who have exited a business in the past 12 months and that business has not been continued). On the other hand, the positive relationship between internationally oriented businesses and the Human Development Index suggests that countries with higher levels of development have higher rates of internationally oriented businesses, as shown by the Global Entrepreneurship Monitor data: Luxembourg – 39.6%, United Arab Emirates – 34.9%, Estonia – 31.5%, Latvia – 28.0%, Germany – 26.2%, etc. (GEM, 2025).

5. CONCLUSION

The broad scope of the concept of 'entrepreneurship' and the multitude of indicators that can be used to express the level of entrepreneurial activity provide researchers with a wide range of opportunities for investigation, but also limit the ability to draw generalised conclusions. The indicators included in the GEM study encompass all three aspects of the entrepreneurship interpretation – behaviour-based entrepreneurship, entrepreneurship based on the organisational concept and productive entrepreneurship. Of the four indicators included in this paper, it turned out that development has a statistically significant positive relationship only with internationally oriented businesses. The internationalisation of business can be considered a form of productive entrepreneurship, so the first conclusion of the preliminary analysis in this paper is that certain forms of productive entrepreneurship are related to development. For a more detailed analysis, it is necessary to observe a more extended period of time and evaluate the cause-and-effect relationship between the variables. Furthermore, future analyses can be expanded by including additional variables that measure productive entrepreneurship, such as innovation-oriented businesses.

The second conclusion of the preliminary analysis presented in this paper is the need to strengthen international cooperation. The state plays an essential role in this through employing financial and non-financial measures to achieve internationalisation. Given that the

rate of new businesses is inversely correlated with the level of development, it is not enough to stimulate entrepreneurs merely to start a business, but to strengthen their competitiveness by entering the international market. It offers the opportunity to increase revenues, strengthen brands, and improve business survival rates.

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