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Entrepreneurship Contribution to Economic Growth: An Empirical Study on Benadir Region

Ali Yassin Sheikh Ali, Sudan University of Science and Technology (SUST), Khartoum Sudan
Jama Abdullahi Anshur, Faculty of Business and Accountancy, SIMAD University, Somalia

Abstract

The purpose of this study was to investigate the supplies of entrepreneurship to economic growth: an empirical study on Benadir region in Somalia. To achieve the objectives of the study the researcher employed descriptive research design for analysis; data was collected from 80 respondents from three selected construction companies in Bakara market Mogadishu-Somalia through questionnaire. The study was aiming to examine the contributions of entrepreneurship to economic growth. The study revealed that entrepreneurship increases the employment level of the country, the productivity, and also makes considerable change the living standards of those involved in the entrepreneurial activities. The researcher suggests that to establish centre for coordination of entrepreneurs and come up with policies and programs aimed at improving the entrepreneurial activities.

Keywords: Entrepreneurship, Economic Growth, Benadir Region

1. Introduction

Entrepreneurship is among the youngest paradigms in management sciences it has been attracting an increasing interest. Much of this interest results from a general perception that small and medium size companies, under the direction of entrepreneurs; are major contributors to job creation and economic growth. Such a view, shared by economists, politicians and a significant part of society is, in fact, the reason why many countries in the world are trying to promote entrepreneurial activity (Thurik & Buis, 1997).

Entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organization (*Commission of the European Communities, 2003*).

In this study, Entrepreneurship is a self-employment of any sort, and entrepreneurs as risk takers, in the sense that they purchased goods at certain prices in the present to sell at uncertain prices in the future (*Richard Cantillon, 1730*).

Entrepreneurs create new businesses, and new businesses in turn create jobs, intensify competition, and may even increase productivity through technological change. Highly measured levels of entrepreneurship will thus translate directly into high levels of economic growth. However, the reality is more complicated (*Acs, 2007*).

Also Economic growth is an expression frequently used to refer to improvements in social well being within nations. (*Saemundsson & Kirchhoff 2002*). The economy of Somalia has been functioning informally for the past twenty years after the destruction of the economical and political infrastructures of the country. An active private sector emerged to fill up the vacuum created by the failure of the central government of Somalia (*Nor, 2012*).

The country has achieved to be one of the best countries in Africa in the areas of private businesses such as telecommunication, financial services, and export and import (*Nor, 2010*). The cheap and high quality telecommunication services provided by the private sector are counted as one of the success stories of Somali private sector development. Similarly, there is a flourishing remittance companies that offer cheap, high speed, full coverage and secure money transfer service to the poor and low-income Somali house-holds (*Nor, 2012*). The purpose of this study was to investigate the entrepreneurship contribution to economic growth, in terms of wealth distribution. Though wealth distribution can be perceived as both cause and effect, the aim here was to investigate wealth distribution as an effect of entrepreneurship.

2. Literature Review

This section was discussed the literature related to the role of entrepreneurship in economic growth. It particularly summarized the relationship between entrepreneurship and economic growth and the contributions of entrepreneurship in economic growth. These are considered the pillars of the study.

2.1 Entrepreneurship

The last two decades have witnessed a wealth of studies analyzing the *determinants* of entrepreneurship. While some of these studies are theoretical (*e.g. Holmes & Schmitz, 1990*), others are empirical (*Evans & Leighton, 1990*). The *consequences* of entrepreneurship, in terms of economic performance, have also generated a extensive literature. However, this literature has generally been restricted to two units of observations – that of the establishment or firm, and that of the region. Noticeably absent are studies linking the impact of entrepreneurship on performance for the unit of observation of the country. A large literature has emerged analyzing the impact of entrepreneurship on economic performance at the level of the firm or establishment. These studies typically measure economic performance in terms of firm growth and survival (*Audretsch, 1995; Caves, 1998; Sutton, 1997*).

The compelling stylized facts that have emerged from this literature are that entrepreneurial activity, measured in terms of firm size and age, is positively related to growth. New firms and (very) small firms grow systematically larger than large and established incumbents. These findings hold across modern Western economies and across time periods. The link between entrepreneurship and performance has also been extended beyond the unit of observation of the firm to include geographic regions. A small literature exists linking measures of entrepreneurial activity for regions to the economic performance of those regions (*Audretsch & Fritsch, 2002; Acs & Armington, 2002*).

2.1.1 The Effects of the Choice between Entrepreneurship and Employment

In this section presents a simple model of occupational choice in which the impact of entrepreneurial activities is analyzed by considering the consequence of not allowing firms to enter (or exit) or of not allowing firms to expand (or to limit) their activities. We distinguish between three possible economic ‘systems’ labeled ‘market economy’, ‘semi-planned economy’ and ‘planned economy’. Before presenting the details of the occupational choice model we will first discuss important recent papers concerning the inter-temporal relation between occupational choice and economic growth.

We will briefly discuss the contributions made in three articles: *Banerjee & Newman (1993)*, *Iyigun & Owen (1999)* and *Lloyd-Ellis and Bernhardt (2000)*. The papers deal with the complicated issue of the two-way interaction between occupational choice and economic development.

On the one hand, both the number of individuals choosing to become self-employed and their entrepreneurial skills affect economic development. On the other hand, the process of development affects the returns to occupations. It transforms the nature of risks and the possibilities for innovation.

Banerjee & Newman (1993) develop a model in which the distribution of wealth plays a central role. They assume that occupational decisions are dependent upon the distribution of wealth because of capital market imperfections, due to which poor agents can only choose working for a wage and wealthy agents become entrepreneurs. The initial distribution of wealth determines whether in the long run an economy converges to a case of only self-employment in small-scale production ('stagnation') or to one where an active labor market and both large- and small-scale production prevail ('prosperity'). *Banerjee and Newman* stress that the model implies that the initial existence of a population of dispossessed whose best choice is to work for a wage, is the condition needed for an economy to achieve the stage of prosperous capitalism (*Banerjee & Newman, 1993*).

2.2 Economic Growth

The traditional neoclassical theory of economic growth was first developed by Robert Solow in his 1956 paper "A Contribution to the Theory of Economic Growth" (*Todaro & Smith, p. 128 and p. 139*). In this paper, Solow argues that economic growth is a function of two inputs- the levels of capital and labor in a given area. The exact nature of this function is determined by the technological possibilities available to the society in question (*Solow, p. 66*). Thus, under this theory, the economic growth of a given country is determined by the amounts of labor and capital that country possesses and the technological possibilities to which that country has access (i.e., the level of knowledge within that country). More recently, many economists have come to believe that market friendly government policies are another important cause of economic growth. *Hans Pitlik* opens his paper "The Path of Liberalization and Economic Growth" by saying that numerous empirical studies have shown that pro-market government policies have a positive effect on the economic growth of a given country. His explanation for this is that pro-market policies increase the benefits individuals receive for performing activities that are conducive to economic growth (*Pitlik, 2005*).

The reevaluation of the role of small firms is related to a renewed attention to the role of entrepreneurship in firms. In case the size class distribution has an influence on growth, it must be differences in organization that matter. The major difference between the organization of a large firm and a small one is the role of ownership and management. In a small firm usually there is one person or a very small group of persons, which is in control and which shapes the firm and its future. The role of such a person is often described with the term 'entrepreneurship'. Also, attention has been given to the role of entrepreneurship in economic development, i.e., for the functioning of markets. Many economists and politicians now have an intuition that there is a positive impact of entrepreneurship on the growth of GDP and employment (*Schumpeter, 1963*).

An increase in the number of entrepreneurs leads to an increase in economic growth. This effect is a result of the concrete expression of their skills, and more precisely, their propensity to innovate. Schumpeter has already described this innovative activity, "the carrying out of new combinations", by distinguishing five cases: (1) The introduction of a new good – that is one with which consumers are not yet familiar – or of a new quality of a good. (2) The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially. (3) The opening of a new market that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before. (4) The conquest of a new source of supply of raw materials or half manufactured goods, again irrespective of whether this source already exists or whether it has first to be created. (5) The carrying out of the new organization of any industry, like the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position" (*Schumpeter, 1963*).

A positive interaction between growth and entrepreneurship is grounded on the innovation activity that entrepreneurs convey. Thus, a significant entrepreneurial supply in the economy stirs up scholarly interest. The first argument in this paper suggested that the supply of entrepreneurial activity is not independent of growth. In this way, the discussion has supported the idea that the integration into analysis of factors determining the individual occupational choice was very important. Under the circumstances, relative rewards have been recognized as the variables through which arises the endogeneity of entrepreneurship and growth (*Schumpeter, 1963*).

A second argument concerned the allocation of entrepreneurial supply between socially productive and unproductive projects. This allocation relies also on an arbitrage. It also determines economic growth (*Schumpeter, 1963*).

2.3 Conclusion

A positive interaction between growth and entrepreneurship is grounded on the innovation activity that entrepreneurs convey. Thus, a significant entrepreneurial supply in the economy stirs up scholarly interest (*Caree & Thurik, 2002*).

The first argument in this paper suggested that the supply of entrepreneurial activity is not independent of growth. In this way, the discussion has supported the idea that the integration into analysis of factors determining the individual occupational choice was very important. Under the circumstances, relative rewards have been recognized as the variables through which arises the endogeneity of entrepreneurship and growth (Caree & Thurik, 2002).

A second argument concerned the allocation of entrepreneurial supply between socially productive and unproductive projects. This allocation relies also on an arbitrage. It also determines economic growth (Caree & Thurik, 2002).

The last question is the one that will probably keep the attention of the policy maker. In contrast to the entrepreneurial supply, which is ultimately explained by the distribution of skills and abilities in the population and on which it is difficult to intervene, the allocation presents some opportunities for public actions (Baumol, 1990, 1993). It could for example take the form of (additional) fiscal measures in favour of innovation rewards. Another way could consist in (heavier) penalties on socially unproductive activities. Referring more particularly to economies that are developing or in transition of Dutz, Ordovery & Willig (2000) stress the primordial role that could be played by governments by creating (or reinforcing) the institutions that foster entrepreneurship (Caree & Thurik, 2002).

This study tried to investigate the contribution of entrepreneurship to economic growth using state-specific aggregate time-series data. Most of the studies conducted from the title: supplies of entrepreneurship to economic growth, where conducted in countries that has a functioning government who has the ability to control rules and regulations of the entrepreneurs and business activities as a whole, but the research team decided to conduct this study in Somalia which is a country that has no functioning government and no ability to control the rules and regulations of the entrepreneurial activities.

3. Methodology

Descriptive research design was used. This research design was helped to obtain pertinent and precise information concerning the status of the phenomena and draw valid conclusions from the facts discovered from the population of the study about the entrepreneurship contribution to economic growth.

This design was also helped to explain the phenomena in terms of impact of entrepreneurship on economic growth in some selected Small Businesses regardless of segmentation, experience and qualifications

The target population of the study was consisted of all the entrepreneurs of construction companies in Mogadishu especially Arab Building Materials Co., Tawakal Construction Co., and finally Agab Construction Company. The entrepreneurs of these three construction companies are figured as 100 as their inputs in the business start up. The target population of the study was become 100 respondents.

The sample size of the study was consisted of 80 respondents of whom were select from the target population who are 100 respondents

The researcher was used judgmental sampling techniques. Purposive or judgmental sampling was become suitable because construction companies tend to have fixed schedules and therefore, data was collected from those people who were conveniently available and willing to co-operate.

Purposive sampling was also convenient because the sample selected was become small and the ideas of the population were needed in a shorter period.

4. Findings

4.1 Demographic Data

In order to ascertain the authenticity of the respondents' information on the various issues relating to the study variables, respondents were asked various general questions. These covered the gender, age, and educational level, duration of the company, entrepreneurship and economic growth. These are illustrated in the background information.

Table 1: Sex of the respondents

Sex	Frequency	Percent
M	60	75
F	20	25
Total	80	100.0

Table I shows that Sixty out of eighty of respondents were male, while twenty out of eighty contributions were female.

Table 2: Age of the respondents

Age	Frequency	Percent
21-30	38	47.5
31-40	30	37.5
More than 49	12	15.0
Total	80	100.0

Table 2 approximately 47.5% of the respondents are between 21-30 years old, 37.5% are between 31-40 years old and 15% are more than 40 years of age. Table 2 also shows that majority of the respondents which is 48% are between 21-30 years of age. This implies that entrepreneurs are almost young.

Table 3: Educational level of the entrepreneurs

Level of Education	Frequency	Percent	Valid Percent	Cumulative Percent
Primary	6	7.5	7.5	7.5
Secondary	45	56.2	56.2	63.8
Diploma	29	36.2	36.2	100.0
Total	80	100.0	100.0	

Table 3 Shows that majority of the entrepreneurs are attained Secondary Certificate 56.2%. An indication that there is no high level of education among entrepreneurs; on the other hand, it also shows that 36.2% of entrepreneurs attained diploma level, and 7.5% are Primary level. This implies that the majority of the entrepreneurs were not professionally qualified and hence not knowledgeable to the business activities.

Table 4: Response on entrepreneurship risks and challenges

Level of agreement	Agree		Strongly agree		Disagree		Strongly disagree		Freq	%
Risk or Challenge	Freq	%	Freq	%	Freq	%	Freq	%	80	100
Entrepreneurs are self-employers.	33	41.2	44	55.0	3	3.8	0.0	0%	80	100
Entrepreneurs have fixed risks in the business start up.	45	56.2	22	27.5	13	16.2	0.0	0%	80	100
The main objective of entrepreneurs is to survive.	26	32.5	49	61.2	4	5.0	1	1.2	80	100
Entrepreneurs are risk takers in terms of money and soul.	41	51.2	30	37.5	9	11.2	0.0	0%	80	100
The biggest challenge of entrepreneurs is financial inadequacy.	40	50.0	40	50.0	0	0%	0	0%	80	100

From the above table, respondents were examined on different issues pertaining to risks and challenges at entrepreneurship. 4 ranking scale was used to rate the respondents' level of agreement. These issues are explained in detail below;

On the subject of Entrepreneurs are self-employers, 41.2% of the respondents agreed, 55% of the respondents strongly agree, 3.8% of the respondents disagreed and 0% of the respondents strongly disagreed. This implies that majority of the respondents strongly agreed that entrepreneurs are self-employers.

On the question of the main objective of entrepreneurs is to survive 32.5% of the respondents agreed, 61.2% of the respondents strongly agreed, 5% of the respondents disagreed, 1.3% strongly disagreed. This implies that majority of the respondents strongly agreed that the main objective of entrepreneurs are to survive.

On the issue of entrepreneurs are risk takers in terms of money and soul 51.2% of the respondents agreed, 37.5% of the respondents strongly agreed, 11.3% of the respondents disagreed, and 0% of the respondents strongly disagreed. This implies that majority of the respondents agreed that entrepreneurs are risk takers in terms of money and soul.

On the subject of the biggest challenge of entrepreneurs is financial inadequacy 50% of the respondents agreed, 50% of the respondents strongly agreed, 0% of the respondents disagreed, 0% of the respondents strongly disagreed. An indication of that financial inadequacy is the biggest challenge of entrepreneurs.

Table 5: Entrepreneurship Contribution

Level of agreement	Agree		Strongly agree		Disagree		Strongly disagree		Freq	%
Contribution	Freq	%	Freq	%	Freq	%	Freq	%	80	100
The product mix of my business increased because of customer needs enhancement.	43	53.8	37	46.2	0	0%	0	0%	80	100
I operate or work in a market with many competitors with flexible prices.	57	71.2	20	25.0	2	2.5	1	1.2	80	100
My business covered almost my needs.	14	17.5	18	22.5	30	37.5	18	22.5	80	100
We have increasing number of part time and fulltime workers.	16	20.0	20	25.0	23	28.8	21	26.2	80	100

From the above table, respondents were examined on different issues pertaining to responsiveness at entrepreneurship Contribution 4 point ranking scale was used to rate the respondents' level of agreement. These issues are individually explained in detail below:

On the question of the product mix of my business increased because of customer needs enhancement; 53.8% of the respondents agreed, 46.2% of the respondents strongly agreed, 0% of the respondents disagreed, and 0% of the respondents strongly disagreed. This implies that majority of the respondents agreed that their product mix increased because of customer needs enhancement.

On the issue of I operate or work in a market with many competitors with flexible prices, 71.2% of the respondents agreed, 25% of the respondents strongly agreed, 2.5% of the respondents disagreed, 1.3% of the respondents strongly disagreed. This implies that majority of the respondents agreed that entrepreneurs operate in a competitive market with flexible prices.

On the subject of my business covered almost my needs; 17.5% of the respondents agreed, 22.5% of the respondents strongly agreed, 37.5% of the respondents disagreed, 22.5% of the respondents strongly disagreed. An indication of that majority of the respondents their businesses cannot cover almost their needs.

On the issue of we have increasing number of part time and fulltime workers, 20% of the respondents agreed, 25% of the respondents strongly agreed, 28.8% of the respondents disagreed, 26.2% of the respondents strongly disagreed. This implies that majority of the respondents disagreed that their workers increasing in number as part time and fulltime.

Table 6: Economic growth

Level of agreement	Agree		Strongly agree		Disagree		Strongly disagree		Freq	%
Growth	Freq	%	Freq	%	Freq	%	Freq	%	80	100
The living style of my family improved after starting the business	31	38.8	29	36.2	15	18.8	5	6.2	80	100
My customers are currently increasing compared to when starting the business.	31	38.8	31	38.8	11	13.8	7	8.8	80	100
Entrepreneurs feel social status of life after starting new business	43	53.8	37	46.2	0	0%	0	0%	80	100

From the above table, respondents were examined on different issues relevant to economic growth. 4 scale ranking was used to rate respondents' level of agreement. These issues are individually explained in detail below:

On the issue of the living style of my family improved after starting the business, 38.3% of respondents agree, 36.2% of respondents strongly agreed, 18.8% of respondents disagreed, and 6.2% of respondents strongly disagreed. This implies that majority of the respondents agreed that entrepreneurs living style improved after starting their businesses.

On the subject of my customers are currently increasing compared to when starting the business; 38.8% of respondents agreed, 38.8% of respondents strongly agreed, 13.8% of respondents disagreed, and 8.8% of respondents strongly disagreed. An indication of those customers is increasing their purchasing power.

On the question of that entrepreneurs feel social status of life after starting new business; 53.8% of respondents agreed, 46.2% of respondents strongly agreed, 0% of respondents disagreed, and 0% of respondents strongly disagreed. This implies that majority of entrepreneurs found social status after starting their businesses.

5. Discussions

In this study of entrepreneurship Contribution (as independent Variable) to economic growth (as dependent Variable) we have examined the supplies of entrepreneurship to economic growth as an empirical study on Benadir region and we have also investigated the contributions of entrepreneurship to economic growth in Benadir region. Most of the respondents agreed that entrepreneurship supplies to economic growth through the provision of employment opportunities and change in standard of living as shown the findings of the study.

The study employed descriptive research design in data collection through questionnaire and as results present Contribution of entrepreneurship to economic growth is slow according to those factors mentioned above, in the meantime a high percentage of respondents strongly agreed that increasing employment opportunities being the most important in improving economic growth.

The first argument in this paper suggested that the Contribution of entrepreneurial activity is not independent of growth. In this way, the discussion has supported the idea that the integration into analysis of factors determining the individual occupational choice was very important. Under the circumstances, relative rewards have been recognized as the variables through which arises the endogeneity of entrepreneurship and growth (Caree & Thurik, 2002).

A second argument concerned the allocation of entrepreneurial Contribution between socially productive and unproductive projects. This allocation relies also on an arbitrage. It also determines economic growth (Caree & Thurik, 2002).

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The results suggest the need for government contributions to entrepreneurship to provide broader opportunities to entrepreneurs. The results also suggest that government come up with motivational policies and programs those could encourage the current and potential entrepreneurs. And finally the study findings ask for further study on the successful entrepreneurship factors to economic growth in whole Somalia.

6. Conclusions

The research has covered important supplies of entrepreneurship to economic growth which are the provision of employment opportunities and the changing of living standards of the entrepreneurs as shown by respondents.

However, there are other factors other than level of employment and shift in standard of living that could be affecting its growth to unlimited extent. Therefore emphasis should be put on entrepreneurship without neglecting the other factors that may affect economic growth.

From the research findings increased employment opportunities and improved living standard affected on economic growth as a high percentage of respondents agreed that entrepreneurship supplies to economic growth. Although that Contribution of entrepreneurship to economic growth is slow according to those factors mentioned above, in the meantime a high percentage of respondents strongly agreed that increasing employment opportunities being the most important in improving economic growth.

Finally, the researcher recommends for further study on the successful factors of entrepreneurs in whole Somalia in formulating economic policies that could encourage potential entrepreneurs to go into business.

Ali Yassin Sheikh Ali,
*Sudan University of Science and Technology (SUST),
Khartoum Sudan*

Jama Abdullahi Anshur,
*Faculty of Business and Accountancy,
SIMAD University, Somalia*

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