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Entrepreneurship and Innovation as Drivers of Economic Transformation and Social Progress: A Narrative Literature Review

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ABSTRACT

Entrepreneurship and innovation are widely associated with economic growth, productivity, employment creation, technological change, and social development. This narrative literature review synthesizes 10 focal studies supplied for the review, supplemented by selected foundational, review, and institutional literature, to examine how entrepreneurship and innovation contribute to economic transformation and social progress. The review covers conceptual, descriptive, case-based, and quantitative studies published mainly between 2007 and 2025, with selected 2026 literature used to identify emerging research directions. The synthesis indicates that entrepreneurial outcomes depend not simply on firm creation, but on the quality of entrepreneurship and the interaction of finance, human capital, institutions, markets, networks, technology, and regional ecosystems. The literature also shows that innovation, university–industry collaboration, R&D investment, sustainable business models, and digital capabilities can strengthen entrepreneurial and economic outcomes. Important gaps remain in long-term evaluation, cross-country comparison, inclusion, emerging economy evidence, ecosystem interactions, and AI-enabled entrepreneurship. The review concludes that policy should focus on productive, innovative, inclusive, and sustainable entrepreneurship rather than maximizing startup

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1. Introduction

Entrepreneurship and innovation occupy an important position in explanations of economic transformation. Entrepreneurs can introduce new products, services, production methods, and business models, while innovation can increase productivity and create new markets. The Schumpeterian tradition places entrepreneurial innovation at the centre of economic change because new combinations can disrupt established production and competitive structures. Later research has expanded the analysis from the individual entrepreneur to firms, institutions, regions, and entrepreneurial ecosystems (Acs & Audretsch, 2005; Audretsch et al., 2019).

The relationship, however, is not automatic. Systematic review evidence indicates that entrepreneurship can generate economic, social, and environmental welfare, but its effects depend on several contextual and firm-level determinants (Neumann, 2021). Similarly, ecosystem research emphasizes that entrepreneurial outcomes depend on interacting conditions such as institutions, culture, finance, talent, demand, networks, infrastructure, and knowledge (Stam & van de Ven, 2021; Queissner et al., 2025).

The present review therefore treats entrepreneurship as a heterogeneous phenomenon. Opportunity-oriented and innovation-driven entrepreneurship may contribute differently to development than necessity-driven or survival-oriented activity. The review also considers social and sustainable entrepreneurship because economic transformation cannot be adequately assessed through firm formation and GDP alone.

2. Objectives and Research Questions

The review has four objectives:

- to examine the principal theoretical explanations linking entrepreneurship, innovation, and economic transformation;
- to synthesize evidence on the economic, technological, social, and sustainability outcomes associated with entrepreneurship;
- to identify institutional and ecosystem conditions that enable productive and innovative entrepreneurship; and
- to identify research gaps and develop implications for policy and future research.

The review is guided by four questions:

1. How does entrepreneurship contribute to economic transformation and innovation?
2. Which institutional and ecosystem factors shape entrepreneurial outcomes?
3. What economic, social, technological, and sustainability outcomes are associated with entrepreneurship and innovation?
4. What gaps remain in the existing literature and what areas require further research?

3. Methodology

3.1 Review Design

The study adopts a narrative literature review design. A narrative review is appropriate for a broad, multidisciplinary question in which conceptual, empirical, case-based, and institutional evidence needs to be interpreted together rather than statistically pooled. Narrative reviews should nevertheless make their scope, search boundaries, inclusion logic, and approach to synthesis transparent. The present review therefore reports these elements explicitly rather than presenting itself as a systematic review or meta-analysis.

3.2 Literature Scope and Search Strategy

The review synthesizes 10 focal studies supplied for the present review, covering entrepreneurship, innovation, economic development, entrepreneurial ecosystems, university innovation, sustainable entrepreneurship, regional innovation, technological change, and high-tech firm performance. The focal studies were supplemented by selected seminal and review literature used to establish theoretical foundations and interpret the findings. Search concepts included combinations of the terms entrepreneurship, innovation, economic growth, economic transformation, entrepreneurial ecosystem, sustainable entrepreneurship, digital entrepreneurship, entrepreneurship policy, university innovation, R&D investment, and social progress. Priority was given to peer-reviewed articles, established theoretical works, literature reviews, and relevant institutional sources.

3.3 Inclusion and Exclusion Criteria

Studies were included when they directly addressed one or more of the following:

- entrepreneurship and innovation;

- entrepreneurship and economic or welfare outcomes;
- entrepreneurial ecosystems and their components;
- institutional, financial, educational, or policy determinants of entrepreneurship;
- technology, digital transformation, or university-based innovation; ● social, sustainable, or inclusive entrepreneurship.

Material primarily unrelated to entrepreneurship, innovation, economic development, or ecosystem outcomes was excluded from the thematic synthesis. Because the review is narrative, the selection is not claimed to be exhaustive and no pooled effect size is estimated.

3.4 Method of Analysis

The selected literature was organized through thematic synthesis. Findings were compared across five analytical themes: (1) entrepreneurship and economic transformation; (2) innovation, technology, and productivity; (3) entrepreneurial ecosystems and institutional conditions; (4) social, inclusive, and sustainable entrepreneurship; and (5) emerging research areas and unresolved questions. The analysis emphasizes convergence, differences in context and method, and limitations in the existing evidence. This approach follows the logic of rigorous narrative review practice, which requires explicit scope and transparent interpretation rather than an impressionistic summary.

3.5 Limitations of the Review Method

The review is limited by its narrative design and by the set of studies available for synthesis. It does not claim exhaustive retrieval of every publication on entrepreneurship and innovation, does not perform formal risk-of-bias scoring, and does not estimate causal effects through meta-analysis. The findings should therefore be interpreted as an evidence-informed synthesis rather than a comprehensive systematic review.

4. Profile of the Reviewed Literature

Study	Focus	Method	Main finding	Key gap / area
Sagar (2024)	Entrepreneurship, innovation and growth	Conceptual/descriptive review	Entrepreneurship, innovation and ecosystems reinforce	Regional ecosystems, digital transformation,

			economic and social development.	finance, inclusion, longitudinal research
Ligonenko et al. (2024)	Innovation infrastructure and economic opportunities	Case study + econometric modelling	Business environment and innovative outputs are associated with perceived economic opportunities.	Cross-country and long-term outcomes
Valavanidis (2020)	Universities and disruptive technologies	Review and case-based synthesis	Universities can convert research and human capital into innovation and startups.	Commercialisation and institutional adaptation
Acs et al. (2008)	Entrepreneurship, development and institutions	Cross-country conceptual/empirical synthesis	Opportunity-driven entrepreneurship and supportive institutions are important for development.	Institutional conditions and development-stage differences
Khan et al. (2024)	Entrepreneurship, innovation and technological change	Descriptive study; 100 respondents	Education, regulation and capital are perceived as important enabling	Broader samples and causal evidence

			conditions.	
Wen Jie et al. (2025)	R&D, capital structure and high-tech firm performance	Secondary data + regression	R&D investment has a strong positive relationship with firm performance.	Other countries, sectors and longer periods
Priya & Suganya (2023)	Innovation, entrepreneurship and development	Conceptual/descriptive	Innovation and entrepreneurship support growth, employment and sustainability.	Quantitative and longitudinal testing
Rumyantsev (2018)	Regional research and innovation systems	Structural-functional analysis	Weak science-business links can limit commercialization of regional research capacity.	Commercialization mechanisms and long-term regional outcomes
Khan (2023)	Innovation and sustainable entrepreneurship	Qualitative/descriptive review	Green innovation and sustainable models can address economic, social and environmental challenges.	Long-term, micro-level and comparative studies
Holcombe (2007)	Entrepreneurship and economic progress	Theoretical/conceptual	Entrepreneurial discovery and innovation are	Integration with formal growth models

			central mechanisms of economic progress.	

5. Literature Review

5.1 Entrepreneurship, Innovation and Economic Transformation

The literature consistently presents entrepreneurship as more than the creation of new firms. Holcombe (2007) conceptualizes entrepreneurship as a mechanism through which entrepreneurs discover new markets, products, and production methods, thereby contributing to broader economic progress. Acs et al. (2008) similarly distinguish among stages of economic development and argue that opportunity-oriented entrepreneurship becomes increasingly important as economies move toward innovation-driven development. Sagar (2024) extends this perspective by linking entrepreneurship with innovation, employment, technology, social impact, and economic development.

The evidence therefore suggests that the developmental contribution of entrepreneurship depends on its type and quality. High-growth and innovation-oriented ventures can generate productivity improvements, knowledge commercialization, and competitive pressure, whereas high rates of business formation alone do not necessarily indicate high levels of innovation or productivity (Acs et al., 2008; Neumann, 2021).

5.2 Innovation, Technology and Productivity

Innovation functions as a major mechanism connecting entrepreneurship with economic transformation. Acs and Audretsch (2005) identify entrepreneurship, innovation, and technological change as interconnected processes, while Valavanidis (2020) emphasizes the role of universities and research institutions in producing and commercializing disruptive technologies. The reviewed evidence also indicates that R&D investment can strengthen firm-level performance. Wen Jie et al. (2025), using data from Chinese high-tech listed firms, find that R&D investment has the strongest positive relationship with firm performance among the principal variables examined.

Digital technologies have expanded entrepreneurial opportunities through e-commerce, digital payments, cloud computing, artificial intelligence, data analytics, and platform models. However, technology does not operate independently: digital infrastructure, skills, institutions, finance, networks, and demand shape whether technological opportunities can be converted into sustainable ventures (Bejjani et al., 2023).

5.3 Entrepreneurial Ecosystems and Institutional Conditions

The entrepreneurial ecosystem perspective shifts analysis from the individual entrepreneur toward the wider system in which entrepreneurship occurs. Stam and van de Ven (2021) identify ecosystem elements including institutions, culture, infrastructure, demand, finance, talent, leadership, networks, and knowledge. Reviews have also shown that ecosystem research has been fragmented and that different elements do not necessarily have equal importance across settings (Brown & Mason, 2017; Cobben et al., 2022; Fernandes & Ferreira, 2022).

Recent evidence strengthens this argument. Queissner et al. (2025) find substantial variation in the relevance of ecosystem elements and identify demand, talent, and finance as particularly important for entrepreneurial activity. This suggests that policy interventions should be context-specific rather than based on a universal ecosystem model.

Institutional quality also shapes entrepreneurial incentives. Acs et al. (2008) emphasize entrepreneurship education, finance, government support, R&D, and technology transfer, while Rumyantsev (2018) shows how weak cooperation between science and business can prevent regional research capacity from being converted into marketable innovation.

5.4 Finance, Human Capital, Demand and Networks

Access to finance is repeatedly identified as an important condition for entrepreneurial activity. Early-stage ventures often face information asymmetries, limited collateral, and uncertain cash flows, making differentiated financing instruments relevant. The literature nevertheless suggests that finance alone is insufficient: capital is more likely to generate durable outcomes when combined with capabilities, market demand, institutional support, and skilled human capital (Acs et al., 2008; Queissner et al., 2025).

Human capital and education are similarly important. Khan et al. (2024) report that respondents ranked the educational system first among the enabling factors examined, followed by the regulatory environment and access to capital. University-based research and entrepreneurial networks can additionally connect knowledge, talent, finance, and commercial opportunities (Valavanidis, 2020; Stam & van de Ven, 2021).

5.5 Social Progress, Inclusion and Sustainable Entrepreneurship

The literature increasingly extends the meaning of entrepreneurial success beyond GDP, employment, and firm survival. Neumann (2021) shows that the welfare effects of entrepreneurship are complex and depend on multiple determinants. Sagar (2024) discusses social entrepreneurship and inclusion, while Khan (2023)

places sustainable entrepreneurship within the triple bottom line of economic, social, and environmental performance.

Khan (2023) identifies green technologies, sustainable agriculture, renewable energy, sustainable mobility, and related innovations as areas in which entrepreneurship can contribute to sustainability. At the ecosystem level, sustainable entrepreneurship requires coordination among firms, governments, investors, universities, and communities (Theodoraki et al., 2022). Recent work also highlights the need to consider social differences and unequal access within entrepreneurial ecosystems (Lois et al., 2026).

5.6 Regional and Emerging-Economy Perspectives

Entrepreneurial ecosystems are geographically and institutionally embedded. Rumyantsev (2018) demonstrates that regional scientific and innovation capacity may remain underutilized when sciencebusiness collaboration, financing, and commercialization mechanisms are weak. Similarly, Ligonenko et al. (2024) connect innovation infrastructure and the business environment with perceptions of current and future economic opportunities using evidence from 50 countries, while emphasizing the importance of financial, educational, informational, technological, and institutional infrastructure.

These findings caution against copying the institutional arrangements of highly successful entrepreneurial hubs without considering local conditions. Brown and Mason (2017) and Fernandes and Ferreira (2022) likewise point to contextual differences in ecosystem development. More evidence is therefore required from emerging and developing economies outside major technology hubs.

6. Critical Analysis and Synthesis

Across the reviewed studies, five patterns emerge. First, entrepreneurship contributes most strongly to economic transformation when it is productive, opportunity-oriented, and capable of generating innovation rather than simply increasing the number of firms. Second, innovation is a central transmission mechanism between entrepreneurship and productivity, but commercialization depends on finance, skills, institutions, networks, and market demand.

Third, entrepreneurial ecosystems should be understood as interacting systems rather than collections of independent variables. Evidence from ecosystem reviews and meta-analysis indicates that the importance of finance, talent, demand, institutions, and other elements varies across contexts (Stam & van de Ven, 2021; Queissner et al., 2025). Fourth, social and environmental outcomes remain less developed in the literature

than conventional economic outcomes, despite increasing interest in sustainable entrepreneurship (Neumann, 2021; Khan, 2023).

Fifth, methodological diversity creates both strength and limitation. The reviewed literature contains theoretical works, conceptual reviews, descriptive studies, case studies, structural analysis, and quantitative regression. This diversity allows broad interpretation but makes direct comparison difficult. The field would benefit from more longitudinal, cross-country, and mixed-method research that connects ecosystem conditions to measurable firm and societal outcomes.

7. Research Gaps and Future Research Agenda

7.1 Beyond Firm Formation

Future studies should move beyond startup counts and examine productivity, innovation quality, employment quality, survival, scaling, internationalization, and social outcomes.

7.2 Emerging and Developing Economies

Comparative evidence is needed from South Asia, Africa, Latin America, and other emerging economies, especially regions outside major metropolitan technology hubs.

7.3 Long-Term Outcomes

More longitudinal research is required to establish whether entrepreneurial activity produces durable productivity, welfare, and sustainability improvements rather than short-term increases in firm formation.

7.4 Ecosystem Interactions

Future research should examine how finance, talent, demand, institutions, networks, infrastructure, and culture interact rather than estimating each ecosystem element in isolation.

7.5 Inclusion and Unequal Access

Research should investigate how gender, socioeconomic position, geography, and other forms of social difference affect access to finance, networks, innovation opportunities, and entrepreneurial outcomes.

7.6 Digital and AI-Enabled Entrepreneurship

Rapid technological change creates a need for research on artificial intelligence, platform entrepreneurship, digital infrastructure, data governance, cybersecurity, and changing entrepreneurial skill requirements.

These topics should be examined alongside questions of productivity, employment, inclusion, and sustainability.

7.7 Commercialization of University and Regional Research

Further research should examine how universities and regional research systems convert scientific knowledge into commercially viable innovation, including the role of technology transfer offices, incubators, industry partnerships, intellectual-property systems, and entrepreneurial capabilities.

8. Policy and Practical Implications

The synthesis suggests six broad policy priorities. First, administrative procedures should be simplified while maintaining appropriate regulatory safeguards. Second, financial policy should provide differentiated instruments for different stages and types of ventures. Third, entrepreneurship education should emphasize experiential learning, mentoring, and industry engagement. Fourth, ecosystem policy should strengthen connections among entrepreneurs, universities, investors, corporations, and public institutions.

Fifth, digital infrastructure and digital capabilities should be treated as foundational ecosystem assets, particularly where access remains unequal. Sixth, entrepreneurship policy should incorporate inclusion and sustainability objectives so that entrepreneurial development contributes to broader social welfare rather than only aggregate firm growth.

9. Conclusion

The reviewed literature supports the conclusion that entrepreneurship and innovation can contribute substantially to economic transformation and social progress, but it does not support a simplistic equation between entrepreneurship and development. The strongest outcomes occur when productive and innovative entrepreneurship is supported by finance, human capital, knowledge, markets, networks, technology, and effective institutions.

The evidence also indicates that entrepreneurial ecosystems are context-dependent and that no single intervention can be expected to produce equivalent outcomes across regions. The most important research priorities are therefore to understand ecosystem interactions, improve evidence from emerging economies, evaluate long-term outcomes, examine inclusion and sustainability, and investigate the consequences of digital and AI-enabled entrepreneurship.

The central implication for policy and research is that the objective should not be to maximize the number of new firms. Instead, attention should be directed toward creating conditions in which entrepreneurship becomes productive, innovative, inclusive, resilient, and sustainable.

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