



Global Economic Crisis and Entrepreneurship Development

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ABSTRACT

The world in its globalizing posture reflects on mobility of capital, labor and goods across national boundaries expressed in entrepreneurial effort of both developed and developing countries. Global economic crisis in an era of government-led privatization and promotion of entrepreneurial spirit in SMEs may throw most developing countries in economic and financial stagnation faster because of their vulnerability. This paper contends that the world has become a single system and entrepreneurial development in these emerging economies will suffer a great setback faster if it is not followed with strong policies, awareness, training along with supporting institutions amid National Reserves of most poor and fragile countries which are held by the same west whose economies are also in danger. The paper recommends that entrepreneurship as an engine of growth should be given strong support by both government and lending financial institutions in developing economies to be well-strengthened to remain viable within certain limits of any global economic crisis.

Key words: Entrepreneurship, Global Crisis, Government.

INTRODUCTION

Entrepreneurship has been central to Schumpeter's theory of economic development, and it is historically based on economics (Bernstein, 2011). On the other hand, it is one of the vital elements of both national and regional economies Byers, Keeley et al. (2000), Bernstein (2011) and it is significant to the global modern business (Li, 2009). Moreover, entrepreneurship development captures the attention of both developed and developing countries of today's globalizing world. National wealth and growth capabilities are no more wholly piloted and generated by government rather giant strides are made in wealth creation, skill development and general development and welfare of the people by the entrepreneurial effort of citizens. It should be noted that many developing countries of the world are in a state of transition. Many of these countries are choked up with a lot of constraints and are striving to move from a subsistence-oriented, tightly integrated, inward looking local

economy to a surplus seeking, market-led, outward looking economy. It has been observed that any progress in this direction is possible only with the emergences of a multitude of a small-scale and rural enterprise in all works of life generating output to the economy. Of course, this requires orientation and building up of a wider base of population capable of entrepreneurial behavior that can trigger wealth creation and enjoyment. Iran is a nation of vibrant men and women with full consciousness and desire for development. A close observation reveals that Iran, just like many other developing countries of the world is gradually trying to mobilize the citizenry through education and other forms of awareness concerning entrepreneurship.

It is a fact that the initial build up of entrepreneurial activity took place in urban centers and a number of emerging efforts in this regard seems to concentrate in the same urban areas with quite a small number seen in rural communities. Most developed and fast-developing countries

of today achieve even-development faster through non-tiring entrepreneurial spirit of their peoples, of which developing countries need such setting. It is compelling to note that development strategy today, however, seeks a more proactive and immediate change in developing countries from entrepreneurship effort and commitment to augment the effort of the government in development ideology and general wellbeing.

In other words, most progressive economies are private-driven expressed in entrepreneurial ventures all over a given polity. In this regard, the need to develop and support entrepreneurship amid global economic crisis has of late taken a center stage of national discourse in most developing nations. The private sector which is made up of small and medium-sized enterprises (SMEs) and other established enterprises are the engine of national growth and constitute far larger space in job creation because the new orientation calls for self-reliance in being productive. The need for self-employment amid scanty job opportunities has led national governments to encourage the spirit of entrepreneurship.

However, much of policy making in this regard treats enterprise creation as a function of appropriate economic conditions which is made possible through institutional and economic interventions, while emphasis has also been in the area of training and attitude change as vital elements in the process through which entrepreneurship emerges and sustains itself even in the period of world economic recession. Historically, the past is a procession of the present, in other words, enterprises and entrepreneurs have been in the centre stage of modernization since the days of Industrial Revolution in Europe hence the need to develop and even secure entrepreneurship amid unforeseen global economic crisis of our contemporary world.

ENTREPRENEURSHIP: THE DEFINITION OF CONCEPT

Entrepreneurship as the engine of growth and development is viewed by writers as the creation of something new (Autio, 2005), it is about the recognition and exploitation of opportunities into the "the creation of new economic activity"

(Davidsson, Delmar, & Wiklund, 2002). This simple definition as the creation of new economic activity embraces new venture creation activity, and new economic activity of already established firms. New economic activity that constitutes entrepreneurship may involve the conversion of a new idea into a successful innovation (Brunk, Caldeira, & LEWIS-BECK, 1987). However, the creation of new economic activity does not only involve innovation, but also with other „entrepreneurial“ features such as risk-taking and proactiveness (Covin & Slevin, 1989). Viewed holistically, entrepreneurship as seen within the context of new creation involves assuming the risks associated with the facilities of production in exchange for profit. It entails the founding of a new business venture where none existed before, and it's concerned with unique combinations of resources that make existing methods or products obsolete. Entrepreneurship involves creating change by adjusting, adopting and modifying one's personal repertoire, approaches, and skills to meet different opportunities available in the environment. It is also concerned with employing, managing and developing

the factors of production and labor too. Entrepreneurship is a process of creating value for customers by exploiting untapped opportunities that leads to growth (Morris, 1998).

INTERCONNECTEDNESS OF NATIONS IN TRADE, SERVICES, INVESTMENT, AND GLOBAL ECONOMIC CRISIS

The world trade and other businesses in general expressed in financial commitment among nations draw on interconnectedness that aligns the countries of the world in a single system. It is imperative to note that no nation is an Island unto itself hence any major financial shock from the metro poles has a corresponding effect elsewhere. Acs et al have stated that, "On the threshold of 21st century, in a single global economy, knowledge about events and opportunities in other countries has never before been as deep or immediately available. This knowledge has favored a rapid and dynamic growth in international trade and international financial flows. Consequently, nations are becoming increasingly dependent on each other's rational behavior"

(Acs, Morck, & Yeung, 2001). We may draw from Nicholson's view that financial crisis which instigated from the United States of America later became a global phenomenon that crashed the U.S, Asia and European stock exchanges, culminating in collective losses of the London, Paris and Frankfurt markets which amounted for over 350 billion Dollars (Nicholson, Lenssen, Blackmore, Febowitz, & Enbar, 2010) Nicholson.

Series of events which led to the crisis began with the collapse of currencies in East Asia in 1997 and became edgy due to the financial crisis of Russia in 1998. While the U.S.

„dot-com“ stock collapsed in 2001, with a record of final stroke in the same U.S.A of a swift decline in housing prices and „rapid contraction in credit and later fell into recession (Malik, Ullah, Azam, & Khan, 2009).

Bartlett observes that the crisis started with the downfall of US sub-prime mortgage industry, recognizing the intensity of the collapse which was significant with regard to market losses on mortgage-backed security, collateralized debt obligation and related assets through March 2008 were approximately 945 billion Dollars. It is the largest financial loss in history when it is compared to Japan's banking crisis in 1990 about 780 billion dollars losses occasioned by Asian crisis of 1997-98 approx 420 billion dollars and the 380 billion savings and loan crisis of U.S itself in 1986 -1995 (Malik et al., 2009). He also argues that it was the „Trust Crisis“ that caused this global predicament. However, as economies become more interconnected with global trade and investment patterns, small and medium-sized enterprises (SMEs) are becoming increasingly important pillars of the economy of the major trading partners. Small firms in the 1990s increased their share in exports in-and-outward foreign direct investment in the OECD countries and in many Asian countries (OECD, 1996). Currently, the modern business world is characterized by globalization which is the international connectivity of market and the interdependence of national economies. In other words, connectivity in this regard means a firm's competitors and suppliers, and customers are located throughout the world. Many products

that originate from particular countries are marketed in other countries (Acs & Audretsch, 2005).

ENTREPRENEURSHIP AND BORDERLESS ECONOMIES

One of the forces that encourage globalization is the explosive growth in low-cost technology connecting people and locations. Well-enhanced information processing and communications technology encourage and create awareness of international economic opportunities. In other words, many companies divide their production processes, thus a software designer in Canada can hire computer programmers in India to test her software (Acs & Audretsch, 2005). Mock and Yeung noted that in a statistical study of large US firms, came to realize that a dollar of R& D adds more value in a firm with access to large and rich foreign markets than in a firm whose operations are restricted to the United States. They also advised that this makes sense because financial success for an innovator hinges critically on the size of his market. With an innovative spirit, a venture costing a million dollars can generate 10 times as much profit when sold into the US market than when it is restricted to Canada due to the fact that there are 10 times huge potential customers in the United States (Morck & Yeung, 1991).

Globalization of business is further encouraged by widespread economic restructuring and liberalization that occurred after the fall of socialism in Russia and Eastern Europe. It should be noted that these hitherto closed areas are becoming new markets and magnets for investment, opening further opportunities for growth and investment. It is compelling to note that in this dynamic world of global entrepreneurial discovery, it induces a widespread effort in innovation in global markets, and also triggers deeper competitive pressure in forcing firms to scan the globe for more efficient ways to do business across borders (Acs & Audretsch, 2005).

According to Oviatt and McDougall, this refers to either cross-country comparisons or organizational behavior across borders, i.e. cross-border entrepreneurship (Oviatt & McDougall, 2005). It should be noted that no entrepreneurial effort of either developed or developing economies are reaped only within the confines of its domestic environment, rather many entrepreneurs are exposed to cross-border benefits of trade and investments culminating in internationalization of business i.e. entrepreneurship with the risks and benefits of globalization. Yeoh has noted that, "to understand the significance of entrepreneurship for national economies it is important to consider cross-border entrepreneurship or the involvement of SMEs and new ventures in the international economy. Cross-border activities, such as exports, are an important means through which small and new ventures are able to create value, to generate growth and to access new knowledge and [page6](#) technologies abroad" (Yeoh, 2004).

Recent increase in international trade and investment flows are triggered by firms whose focus hitherto had been in domestic markets now joining firms that have been in global business (Muller, 2004). However, as more and more countries become market-oriented and economically developed, the distinction between foreign and domestic

markets is becoming less pronounced. Items once produced domestically are now produced internationally and made available or made over the world (Hisrich, 2009).

ENTREPRENEURSHIP DEVELOPMENT: A NATIONAL GROWTH STRATEGY AND CHALLENGE

Entrepreneurial business and small and large corporations play significant and complementary roles in today's complex economy. Remarkably, history shows a common pattern as small SMEs serve as incubators for new ideas. There are records of success by SMEs amid failure of these experiences. The successful ones in this competition often attract outside interest and large companies with resources, then give a boost to the most promising innovations through investment or acquisition (Edwards, 1999). In the light of this global trend in entrepreneurial expansion, (L. C. Thurow, 1999) notes; In the century ahead the economic game will be played on three levels [at the national, company, and individual levels]. Companies will play the game on the skills they employ, the capital investments they make, their technical prowess, and their ability to globally source and sell new products. New start-ups that rapidly grow to become big multinationals will be an important part of success. These new, rapidly growing start-ups won't appear without entrepreneurs. Social regulations and attitudes will have to permit industrial flexibility if entrepreneurs and new companies are to emerge (L. Thurow, 1999).

SMEs are vital for economic growth and development in both industrialized and developing countries, as they play key role in creating new jobs. Small and medium-sized enterprises need adequate financing to meet needs at each stage of their life cycle, from creation through operation, development, restructuring, recovery and beyond. Financing is necessary to help them set up and expand their operations, develop new product and invest in new staff or production facilities. Many small businesses start out as idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. But if they are successful, there comes a time for all developing SMEs when they need new investment to expand or innovate further. That is where they run into problems, because they find it much harder than large businesses to obtain financing from banks, capital market or other suppliers of credit. Many African countries have to deal with this chasm between the role of micro credit institutions and that of larger financial institutions. This is the space where SMEs operate and referred to in the Africa

[page6](#) Commission's Report as the missing middle (Vanguard, 2010).

ENTREPRENEURSHIP DEVELOPMENT AND RESILIENCE REQUIRES GOVERNMENT'S COMMITMENT

Events in the US reveal that, "As the nation sorts out its priorities for the new century, fostering entrepreneurship must be a cornerstone of our economic policy. If we fail in this regard, the costs could be enormous. First, if policymakers do not understand the importance of entrepreneurship to the economy and the policy infrastructure

under which it thrives, we could easily cripple the powerful engine that is now driving American economic growth” (Mazzarol, 2005). Most often even in most places, entrepreneurs do not exist. The same economic possibilities exist, but they are not seen, the energy to bring them to market is lacking, or the risks they involve are seen as too great to be accepted (L. Thurow, 1999). While the evidence of the power of entrepreneurship is clear in the economy, many policymakers don’t seem to embrace this view when their economic advisors do not validate its importance (Mazzarol, 2005). The need for adequate attention to entrepreneurship by policymakers may have informed Peter

Drucker’s assertion that classical economics “cannot handle the entrepreneur but consign him to the shadowy realm of external forces” together with climate and the weather, government and politics, pestilence and war (Drucker, 2006). It is succinctly stated that; Policymakers need to go further than simply appreciating the role of entrepreneurs in economic growth. They must understand those key policy factors that help entrepreneurs thrive, on the one hand, or that could stamp them out, “ on the other what are the key factors in the regulation of capital markets, financial incentives for entrepreneurs, the protection of intellectual property, the support of knowledge workers, or the regulation of access to technology developments that determine the level of entrepreneurial activity in the country. Without an understanding of these and other components of the infrastructure that supports entrepreneurship, policymakers could stumble badly and cripple entrepreneurial contribution to economic growth (Mazzarol, 2005). In other words, government effort in supporting entrepreneurship which is increasingly involved in cross-border activities for particular exports with the aim to increase national wealth and improve international competitiveness of the national economy remains a national priority (OECD, 1996). The costs of doing international business by SMEs are becoming cumbersome in the area of delivery of goods and services (Zacharakis, 1997).

The recent injection of 800 billion dollars by the U.S government in its economy to support the structure, and UK government which announced a package of 692 billion dollars in the same direction tallies with European Union’s economic recovery plans while IMF has called for minimum financial support of 100 billion dollars (Avellaneda, 2008). Malik has suggested that bailout programmers of this kind and other supporting packages government give is a form of giving protection from a negative outcome which is more appropriate to be called as „moral hazard“, of which the trend could increase the possibility of future occurrence (Malik et al., 2009), although the costs have been reduced by technological advances in transport, telecommunication and information (OECD, 2000). Yet SMEs are resource-constrained, thus lacking in market-power, knowledge and resources to operate viably at the international arena (Coviello & McAuley, 1999). Effort should be made regularly by government to give huge support for improved performance of SMEs as the bedrock of the economic breakthrough of the society. Well-funded entrepreneurship hardly succumbs easily to shocks occasioned by distortions in international market. It has been observed that there is a link between innovation and imports which can encourage policy

makers to incorporate activities on imports in their internationalization policies that would help stimulate exports by domestic firms (Korhonen, Luostarinen, & Welch, 1996).

Many countries are aware of the crucial role entrepreneurial development yield to their economy, hence Philippines, for example, in this direction aims to develop SME sector a significant and viable contributor to national development by 2010. The vision shall be achieved through clear and integrated to attain global competitiveness for the county’s SMEs within a supportive domestic climate. The plan details and strategies are drawn up through extensive and joint efforts between the private business sector and the government identities (Periquet, 2006). However, the plans identifies the following specific programs to address the encourage and develop entrepreneurship;

- Provision of business opportunities
- Strategic business planning. Training and self-help packages to develop strategic business plans
- Product development and design services. - Support to start-up enterprises in selected areas.
- Business opportunity and enterprise creation approaches. - Entrepreneurship training camps and enterprise development programmers.
- Business opportunity development and investment promotion for innovative ideas.
- Institutionalization of the SME opportunities caravan. -Franchising seminars.
- Cooperative Business development plan.

Furthermore, there is need to encourage growth of entrepreneurship through export-oriented support. Exports are important in economic development of nations. Almeida Couto, Borges Tiago et al. (2006) International operations of new firms are important and encouraged for macro-economic growth (Moen, 2002).

IT TASKS ON FINANCIAL INSTITUTIONS, EDUCATION AND SOCIAL SUPPORT

Entrepreneurship development is encouraged by government formulating a national micro-entrepreneurs protection fund though its specialized agency which will be sponsored by donation from the government, a certain share from the revenue of MFIs and NGOs, aid collected from corporate social responsibility acts, regular charities, religious charities and donation from international bodies. Education about entrepreneurship and business in general needs to extend beyond the educational institutions to the public media in the contemporary transitional economies. Chambers of commerce, government agencies, trade associations, business clubs such as Rotary Clubs, and even labour organizations can sponsor public awareness campaigns. Developing entrepreneurship involves making available educational materials, distance learning courses or business books can with a little effort be translated and adapted and disseminated the public media commonly available. It has been observed that entrepreneurship is able to play vital role in the financial scenario by creating job opportunities and economic growth. The status of entrepreneurs globally is that in the United States of America, U.K and most parts of Europe, entrepreneurs always rely on financing from banks (Won). Absence of capital market has

been part of the constraints particularly in Africa. The financial systems in most African countries are underdeveloped and provide few financial instruments. There is a gradual trend in this as the capital markets are still evolving while other conventional sources have no credit worthiness of the SMEs. African markets have not created enough products to attract companies to the market as seen in advanced economies hence the people need to be educated about the prospects of capital market (Vanguard, 2010). Furthermore, entrepreneurship development is also induced by the push factor which is a necessity when unemployed people are forced to be self-employed. It is the case in both developed and developing countries (Grilo & Thurik, 2006). Of course those engage in entrepreneurship due to push factor have lower aspiration level than those are opportunity-driven (Reynolds & Curtin, 2008). In other words, when someone starts a business in order to create wealth, it will have positive effect on the ambition in terms of growth and innovation. Hence Cassar noted that ambition in entrepreneurship is financially motivated (Cassar, 2007).

CONCLUSION

Current trade and investment across national boundaries is gradually taking a shape that captures almost most emerging SMEs taking interest in cross-border sales and services. Civilization with its modernizing tendencies seems to have a sweeping trend in trade, investment and services across the globe made possible by technological advancement. Modern state growth and development is anchored on SMEs of various forms engaged in a variety of new ventures that generate new products and services locally with a spill-over across national boundaries due to external demands with huge profit. As the world witnesses unrestricted spread of SMEs venturing into international business, so also is the risks and challenges in the global market. Amid uncertainties in the international market with its twin benefits to nations, entrepreneurship has become a source through which small

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