

Entrepreneurs and Small Businesses: A Nation's Greatest Resource

By Professor Thomas V. Schwarz



While their contributions have been underestimated in the past, entrepreneurs are now recognized as the force that drives the "invisible hand" of the famous economist, Adam Smith. They are the ones who shift resources out of an area of lower productivity and into one of higher return and value. They are the pioneers who convert ideas into products; dreams into reality. They are what make an economy dynamic as opposed to static.

Today's economic environment is a lot different than it used to be. Entrepreneurs are facing new challenges and the traditional way of doing things no longer rules. The implications are that: 1) continued turbulence and change for organizations will be the norm, 2) there will be a reduced need for organizational physical assets, 3) the influence of physical distance on organizational decisions has all but disappeared, and 4) the compressed time dimension requires organizations to stay on top of changes with no time-outs and no substitutions.

Therefore, the new companies of the 21st Century will:

1. Be smaller and more responsive (flexible)
2. Look for niche markets at a global level
3. Innovate with teams and fast-paced product development
4. Be oriented toward superior quality and customer service
5. Have a flatter organizational structure
6. Rely on outsourcing and use the virtual company structure
7. Create value by giving people a major stake in the organization

Thankfully, entrepreneurs welcome and even thrive on change. They both perceive and seize the opportunity to create value, i.e., to meet the new demands of the market (people) as well as those of other stakeholders such as investors and employees, from the disorder that change generates. In a sense, entrepreneurs are those who "manage change" and bring resources back into a more productive alignment. Government economic stability programs are tools of the distant past. The only stability for an economy today is to remain competitive and that means to use technology, communication, and transportation efficiencies to innovate and create products that meet the ever-growing needs and problems of the world community. Today, entrepreneurship is proliferating world-wide because the marketplace is demanding change. The Global Entrepreneurship Monitor (GEM) recently released a formal study of entrepreneurial activity within 37 countries (Greece has not yet been represented within the GEM studies) with extrapolation to the greater global economy (Reynolds et al, 2002). Now in its fourth contiguous year, GEM reports striking differences of entrepreneurial activity world-wide. Focusing on the start-up of new ventures (along with those ventures with less than 42 months of activity), GEM found that the percentage of a country's population who were involved in these entrepreneurial activities ranged from a low of 2% (Japan) to a high of 18% (Thailand).

Entrepreneurship was found to be lowest in developed Asian countries and central Europe, slightly higher in the EU, substantially higher in the former British Empire (including the USA), higher still in Latin America, and highest in the developing Asian countries. In addition to the level of economic activity, it was determined that stable national characteristics - government policies, social and cultural norms, and education and training - can be either a strength or a weakness of the country. The implication is that each country must learn the practices of how to support its indigenous entrepreneurs as well as to create an environment attractive to other entrepreneurs around the world (c.f., the reference within this issue of InnKnow FORUM to the Irish example of policies that have been successful in this regard).

What economies are suffering the most today? Clearly, it is those that are having difficulty changing with the times. The causes can be many and varied, e.g., strong interest and lobby groups that resist change, bureaucratic governments that fight change, an uneducated workforce that is unable to change, different kind of convictions that reject change, and a host of other issues. The fact is that change is upon us all. The economies of the world that will progress the most are those that see these changes as opportunities rather than struggles, as good rather than evil, and something to embrace rather than to oppose. This defines the entrepreneur and illustrates what an invaluable national asset they represent.

The U.S. economic system is facing many challenges and has been doing so for quite some time. Yet, the driving force in the US economy for the past 10-15 years and for the foreseeable future is clearly entrepreneurial small businesses (Acs et al, 1998). While larger corporations have instituted "downsizing" programs, U.S. small businesses now represent over 99% of all U.S. employers and provide virtually all of the net new jobs created in the economy. Very small businesses (those with less than 20 employees) account for 77% of this growth. Further, new small businesses generate 24 times more innovations per research dollar spent than do the largest 500 companies and they provide 95% of new and "radical" product developments. One measure of the importance of small firm innovation is the number of times a patent is cited by subsequent patents. In the report of Hicks (2003), small firm patents were found to be cited 28% more than their large firm counterparts.

The ability to sell to global markets, to raise capital across geographic boundaries, and with the aid of computer and technology, to deliver world-class products is no longer the sole domain of the large company. Never before have small businesses been able to compete so effectively against large firms. Speed, agility, and responsive to change are necessary resources in the new world economy. Entrepreneurs seek out arenas where they are free to create, innovate, and pursue the opportunities and rewards that the world brings. The U.S. has benefited to a great extent because the entrepreneurs of the world have flocked there for many years. Therefore, a central question to ask for any nation, region or community is whether today's international entrepreneurs aggressively are seeking to locate in "our" region? It is an important question to carefully examine as the future economic position of a nation or a region is, to a large extent, determined by its answer.

What is the condition of entrepreneurship in your country? A proper role of government is to create an environment that is fertile soil for entrepreneurs to do their job. Is this the situation? To learn more, ask local entrepreneurs how they would like the government to help. Invariably, the answer may be as simple as to get out of the way or to create an environment that fosters creativity and new ideas by opening travel and relations with other cultures and systems. Create openness for a multicultural society. Provide security for risk-taking through fair bankruptcy laws and efficient and fair court systems. Make government processes simple and quick. Entrepreneurs are self-motivated problem solvers. What a wonderful asset for any country. The question for any government should be, "How can we attract and encourage more of these entrepreneurs?" Undeniably, entrepreneurs will create jobs, provide income, produce tax revenue, and provide innovations and solutions for the country and world community. Without the drive, energies, and dedication of entrepreneurs, new business formation does not take place, and without the continual generation of new businesses, the economy stagnates.