

Entrepreneurship as a Means for Economic Growth, Social Contribution, and Personal Development, and a Hope for Japan

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Introduction

Entrepreneurship has long been seen as an important contributor to advancing the economic prosperity of both societies and individuals. Entrepreneurship adds value through new business activity and through innovations that more effectively align resources, processes, industries and opportunities, which in turn provides greater return on investment as well as greater societal and individual wealth. As such, entrepreneurship provides a vital human-driven force for economic growth and revitalization.

More recently entrepreneurship, its attitudes and approaches have been applied to non-business entities such as charities, government agencies and educational institutions. This has been meant to both boost performance efficiency of the organizations as well as to foster creative innovation and new approaches to solving the often persisting problems the organizations were originally founded to address.

Entrepreneurship requires a forward-thinking, integrative approach to addressing issues and solving problems. The study and practice of entrepreneurship helps individuals develop valuable personal skills in areas such as creativity, leadership, and self-confidence. These skills can be employed in a variety of business and non-business settings.

Japan, which has now been in economic doldrums for nearly twenty years, has generally lagged its peers in many measures of entrepreneurship during this time. This gap has been blamed on numerous structural and cultural factors. Over the past decade efforts have been made to address these gaps and some progress has been made in bringing Japan closer to its European peers. The recent landslide election sweep of the 50-plus year incumbent Liberal Democratic Party signaled that the public is dissatisfied with the status-quo in Japan. For the benefit of the country as a whole and for the new adults that have grown up experiencing only the difficult economic days of Japan, it is hoped that Japan will take this opportunity to redouble efforts to foster entrepreneurial activity in both the business sector as well as in government, educational and other not-for-profit organizations.

Evolving Concept of Entrepreneurship

The concept of entrepreneurship has been evolving since it was first used in an economic sense by Richard Cantillon in the eighteenth century. From the French word for “one who undertakes an action” an entrepreneur was originally described by Cantillon as a financial-risk bearing business owner who combines capital, labor and means of production to produce new output. When people describe small or new business owners as entrepreneurs it is usually in this meaning.

In the 1800s John-Baptiste Say and John Stuart Mill in their separate treatises on political economy stressed the important role that entrepreneurs and their firms play in the overall economy by realigning resources from less productive to more productive areas, thereby increasing value to both their firms and to the economy as a whole. Later in the 1890s, leading British economist Alfred Marshall highlighted the organizing role undertaken by Mill’s entrepreneur as the necessary factor that determines the resulting marginal productivity of the other factors of production: land, capital and labor, to creatively organize to produce new types of goods or improve “the plan of producing an old commodity” (Marshall, 1920).

It is, however, the Austrian-born, Harvard University professor of economics, Joseph Schumpeter, who is credited today for spelling out a theory of innovation and placing the entrepreneur right at its center. Schumpeter made “the distinction between the entrepreneur and the mere head or manager of a firm who runs it on established lines.” Schumpeter noted the same individual may undertake both roles, just as a manager may also be an owner. However the key issue for Schumpeter was that entrepreneurial activity meant doing something differently from standard practice. “...that the economic function of deciding how much wool to buy for one’s process of production and the function of introducing a new process of production do not stand on the same footing, either in practice or in logic.” Entrepreneurship to Schumpeter was at its core a creative, innovative activity (Schumpeter, 1939).

Later in the 20th century, leading business writer and educator, Peter Drucker further defined the idea of the entrepreneur who “searches for change, responds to it, and exploits change as an opportunity.” As with that of Schumpeter, Drucker’s entrepreneurship is focused on the activity of creative and innovative change. Like those above whom he credits for laying the foundation for entrepreneurship, Drucker generally addresses his entrepreneurial agent of innovation and change in the context of business and economics. Drucker, however, stands of particular note for explicitly expressing the important role that entrepreneurship and innovation can and should play in non-business organizations including government, not-for-profits and educational institutions (Drucker, 1985).

Today entrepreneurs and entrepreneurship are used to describe both the innovative, Schumpeter/Drucker entrepreneur, as well as the more traditional Cantillon/Marshall new business-owner entrepreneur. They would be what New York University Professor William Baumol and colleagues call “innovative” entrepreneurs and “replicative” entrepreneurs, respectively. Each one has a role to play in an economy, as do larger, more established traditional firms. (Baumol, 2007)

Societal & Economic Benefits of Entrepreneurship

There is now much agreement that entrepreneurship of both sorts provides a vital contribution to stimulating economic growth and employment opportunities. Entrepreneurs create new businesses, generating jobs for their employees and themselves. To achieve successful economic development, a country must experience both economic expansion and "fundamental changes in the structure of [its] economy" (Gillis, 1996).

This fundamental change fits with the entrepreneurial innovation that Schumpeter placed at the base of economic evolution, development and growth, entrepreneurs creating "new combinations," that help render old industries and/or less effective business practices obsolete. By more efficiently using inputs not only means cost-savings but help in matters of conservation which is particularly important to resources of dwindling supply or whose access or use is environmentally sensitive. In some cases this is done through innovative entrepreneurial behavior. In other cases it is done by applying previously understood techniques of production on a larger scale and/or more broadly within a country (GEM, 2008).

As such entrepreneurial performance helps accelerate the growth of capital and wealth. "Regardless of the level of development and firm size, entrepreneurial behavior remains a crucial engine of innovation and growth for the economy and for individual companies since, by definition, it implies attention and willingness to take advantage of unexploited opportunities" (GEM, 2006).

While not all small or new businesses are entrepreneurial in the Schumpeterian sense of creating new technology or business models, aggregate measurements of small firms and new firm are frequently used as proxies for measuring the gross impact of entrepreneurship. These firms play an important economic role in job creation, in realigning production and bringing forward technology and other innovations.

In the United States, for example, small businesses provide about 75 percent of the net new jobs. Given that roughly only one-fourth of registered small business actually hire employees, the job generation rate of these “employer” firms, is even more impressive (Headd and Saade,

2008). As stated by Hector Baretto, Administrator of the U.S. Small Business Administration (SBA), "Small businesses broaden the base of participation in society, create jobs, decentralize economic power, and give people a stake in the future" Small, more nimble firms are more likely than large companies to produce specialty goods and services and custom-demand items. Further there are some quantitative indicators that support the idea that small firms are more efficient in producing innovative results such as research that small technology companies produce nearly 13 times more patents per employee than do large firms, may point to some justification for this basis (SBA, 2003).

In the developing world, successful small businesses are the primary agents of job creation, income growth, and poverty reduction. International and regional institutions, such as the United Nations and the Organization for Economic Cooperation and Development, find entrepreneurs can play a crucial role in mobilizing resources and promoting economic growth and socio-economic development. Most of these firms are entrepreneurial in the original Cantillon sense of the word. They are more typically replicative entrepreneurial firms mimicking businesses that have been shown to work elsewhere, though perhaps customized to meet local conditions. The firms are owned by individuals using their own or borrowed capital. Finding ways to provide even small amounts of debt or even equity capital to these individuals can be beneficial in boosting the level of entrepreneurship.

Entrepreneurship and innovation also improves overall quality of life in non-monetary ways. Innovative products and services create new possibilities for consumers and increase choices. New products and services make life easier by improving communications, transportation, health care and providing new forms of entertainment, learning and sharing ideas. Consumers in the society also benefit though the choices and better pricing provided by new, entrepreneurial competitors. Entrepreneurial firms may even provide customers with goods and services for needs or wants they didn't even know they had.

No economy can be fully successful with entrepreneurs alone. Many such firms will be too small to realize economies of scale or have the capacity to market or sell to the overall marketplace. Most successful economies are comprised of a mix of innovative entrepreneurs, replicative entrepreneurs, and larger, more established firms. These larger firms refine, mass-produce the innovations that entrepreneurs develop, sometimes in partnership, sometimes as channel, and sometimes as a competitor (Baumol, 2007).

Additionally many larger corporations, including some of the largest firms in the world can and have created a more entrepreneurial approach within their companies. 3M Corporation, for example, was renown for its innovation in product development (Sathe, 2003). How does a firm, particularly, a larger more established firm, like 3M create an environment in which its

employees can display the best qualities of entrepreneurial passion, creativity and dedication to success? One answer is to create a structure that essentially divides the larger organization into a simulation of more nimble smaller firms. This is the approach taken by Kyocera Corporation which basically divides up the firm's tens of thousands of employees into smaller organizational units called "amoebas." Each amoeba operates to a large extent like an individual entrepreneurial company with a highly participatory team, having profit and loss responsibility as well as utilizing a measurement of value added per-hour to foster increased productivity.

Entrepreneurship in Not-For-Profit Organizations

Peter Drucker devotes a complete chapter of his landmark book "Innovation and Entrepreneurship" to entrepreneurial innovation in public-service institutions. These organizations include government agencies, schools, hospitals, unions, churches, charities, trade associations and other organizations that may be not-for-profit in structure. He notes that these organizations may be even more complicated, more tradition-based, more driven by politics or other factors and constituents constricting innovative development than even large bureaucratic corporations. These organizations and the "markets" they serve would benefit from both innovative and replicative entrepreneurship.

Not-for-profits still face financial issues. They have expenses, pay salaries, require capital for ongoing operations. But they have tended to "maximize rather than to optimize" (Drucker 1985). This is reflected in increasingly larger budgets, larger staffs, greater numbers of activities and scope than were perhaps originally envisioned by founders. All of these are habits that are hard to break. Run more efficiently they would be able to devote more resources to their core objectives than to overhead and ancillary efforts. The organization would be more financially sustainable and able to perhaps better weather a downturn in giving.

However as with for-profit corporations, efficiency is not the intrinsic objective of the organization. After all what good is a highly efficient charity or other organization that is ineffective in addressing its basic purpose? The efficiency must still serve the overall purpose and need of the organization. Here is where innovative entrepreneurship has a chief role to play. Can the organization find new approaches to achieving its stated goals, approaches that would have greater impact and results than the methods currently under utilization?

Indeed much has changed in the non-for-profit world since Drucker wrote about entrepreneurship in public service organizations in 1985. During the past two-plus decades more and more innovative entrepreneurial approaches have been applied to problem-solving in

the public-service / not-for-profit sector globally. These new approaches have helped to create organizations such as charter schools and Grameen Bank, which has provided small “microcredit” loans to nearly 8 million people in Bangladesh.

Today the field is called “social entrepreneurship.” And with it are new participants, new measures for efficiency, new organizations and structures and new management approaches for organizations. The growth of social entrepreneurship also reflects the proposition that more people would like to give, not just get, particularly if they think that the work that they do will have a real and effective impact.

Entrepreneurship and Personal Development

“All human beings are entrepreneurs.”

- Nobel Peace Prize Winner Muhammad Yunus, Founder of Grameen Bank.

Everyone is born with some capacity for entrepreneurship. Just look at children at play. They don't know the “rules of the game” or that “rules of the game” even exist. They create their own games. Later as they learn about relationships and authority they learn creative ways to negotiate with a parent for some desired objective. However many social and educational processes, particularly those emphasizing standardization and narrow specialization, “de-entrepreneur” them.

Entrepreneurship is an exercise in creative problem-solving and self-expression. Entrepreneurship provides an opportunity for a person to make a societal contribution that reflects their personal priorities and goals in a manner reflecting their skills and understanding of how things could be. Because it is a means to attempt to create a new thing of value or a better way of achieving a goal, entrepreneurship is by nature optimistic. Without a view that the entrepreneur and the organization could potentially succeed, few people would undertake a new venture. This belief in possibility and chance for positive change is a core part of the entrepreneurial mindset. The chance to successfully achieve this possibility is the intrinsic motivation and its achievement and subsequent contribution the goal.

Why Study Entrepreneurship?

Entrepreneurship, in both its practice and its study, provides a valuable vehicle and opportunity for personal development and financial growth. In a sense each individual has to be creative and develop a “business model” for his or her life. In some cases that may be by undertaking one's own business, but in most cases it occurs in discovery and pursuit of one's

own career path and choices within and among organizations. Entrepreneurship represents a way of thinking and doing that is beneficial for success in many types of undertakings and in life generally.

Entrepreneurship is relevant to people in all fields of study. Its principles can be applied in both new and existing organizations. In the real world there are economic and organizational aspects of all fields from the arts to the sciences, from politics to medicine, from military to charity. Entrepreneurship study builds a broad variety of personal and work/life-related skills. Entrepreneurship offers the opportunity to develop, express, test and reinforce many broadly applicable positive personal attributes including: creativity, leadership, passion, self-confidence, self-esteem, dedication, determination, flexibility, perceptivity and insight.

In defining and deciding who the entrepreneur is in an organization, Schumpeter writes, “It is leadership rather than ownership that matters” (Schumpeter 1939). Even with the brightest idea and the power of position, it is rarely an easy task to get people to change their assumptions and habits. People can be fearful of change and stubborn in their views. Organizations have their own inertia or direction that must be altered. Learning to motivate and move people in a new direction, a skill required of entrepreneurs, is a valuable skill in any situation.

Entrepreneurship requires an integrative, holistic approach to addressing issues and solving problems. Unlike the increasing number of specialists in professional and scholarly areas, entrepreneurs are involved in the total development and operation of the business, from concept to operation. The entrepreneur must consider a myriad of external and internal forces and issues in developing the business and solving problems. He or she must learn to be forward thinking, future aware and flexible to address the dynamic changes occurring within and without the organization. They must foresee changes and be willing to act and lead in the absence of complete and certain information (Marshall, 1920).

This issue of facing uncharted waters in a constantly changing sea requires continuous questioning, testing and learning as well as creativity and original thinking. There is an inherent push for innovation and further improvement. This in turn requires persistence, dedication and determination to move forward. Efforts must be sustained over long hours and over months or years. Many times results will be unknown and clear progress may only come far after originally expected and after many mid-course corrections. Having or developing the determination and desire to achieve success accompanied by the persistence to bounce back after rough times is a crucial trait to develop.

There is no one profile of entrepreneurs. Entrepreneurs come from various age groups, income

levels, gender, race, education and experience, as evidenced by the list of countries represented by U.S. immigrant entrepreneurs. In part this supports the idea that environmental context, a society and marketplace that welcomes and encourages entrepreneurship on both practical (legal, financial, operational) and psychological/sociological/philosophical levels, may help in fostering entrepreneurship.

Implications and a Hope for Japan

The culture of a community may influence how much entrepreneurship there is within it. That entrepreneurship has taken an exalted place in United States business lore is not surprising. U.S. history is rooted in individuals who were entrepreneurially innovative in character and deeds. The American continent was discovered by explorers, who essentially were entrepreneurs looking for a new, faster way to do something, in that case reaching the wealth and opportunity of China and India. (Even that entrepreneurial venture led its participants down an unexpected but valuable path.) American colonies were settled by disaffected and disenfranchised peoples seeking both a better financial opportunity as well as self-determination of religion and governance. Opportunity for self-governance and economic prosperity were also key drivers of the American Revolution and a new form of governing that was truly innovative in the Schumpeterian sense. Its westward moving pioneers and arriving immigrants often had little choice to achieve true prosperity except through the path of entrepreneurial behavior.

Unfortunately this also implies that entrepreneurship can also be limited by context. Japan, which has been mired in economic doldrums for nearly twenty years, lagged its peers in many measures of entrepreneurship during this time. This gap has been blamed on numerous structural and cultural reasons. Japan, an island nation of limited resources with a very long history, developed economically and culturally through traditions of village/community-based cooperation, coordination and hierarchical structures. As leading Japanese entrepreneur Kazuo Inamori noted in his book *For People and For Profit*, greater success in rice paddy farming required a harmonized rule-based cooperation and resource sharing. Historically Japanese craftsmen and artist also followed a strict apprenticeship system in which emulation and strict obedience were required. These coordinated and hierarchical approaches continued to be reflected in the twentieth century administrative guidance to industry provided by Japanese ministries, and through the keiretsu system by which member companies coordinated their activities for the benefit of the group. All of these practices helped to dampen and dissuade the development of innovative entrepreneurs and firms different than the norm (Inamori 1997).

In 2008 Japan's Ministry of Economy, Trade & Industry (METI) Office for New Business,

Economic and Industrial Policy Bureau released the final report of its Study Group for the Creation and Development of Start-ups. The study group, which met eight times over a seven month period, was comprised of a diverse membership consisting of two dozen business executives, stock exchange representatives, university faculty, investors, attorneys, and securities industry professionals. Their report entitled, “2007 Survey of Creation and Development of Start-ups,” listed the following three top conclusions, which echo the major points discussed in this paper, as being important for Japan.

1. Start-ups are an important source of innovation of the whole Japanese economy
2. Start-ups help develop new technologies and business models, that contribute to creating new industries, revitalizing the economy and increasing jobs.
3. Starting up a venture also helps the entrepreneurs themselves realize their dreams, achieve their ambitions and work for the community

That the Ministry of Economics, Trade and Industry (METI), among the most powerful ministries in Japan, both commissioned this study and validated its conclusions represents a central government acknowledgment of the vital role that entrepreneurship can play in Japan’s revitalization. Moreover, during the past decade METI and other ministries have made efforts to address these gaps and some progress has been made to bring Japan closer to its European peers. Recently Japan’s new businesses creation rate has risen and new businesses are now employing people at a rate faster than dying business are losing them. As of 2006 there were 5.7 million private establishments in Japan, employing approximately 54 million people. This number was 6.8% less than had existed in 2001 with 1.74 million businesses closing and 1.36 million being established. However, each new business employed an average of 10.4 employees vs. 7.4 employees for those that shut down and 9.2 for ongoing businesses. In total the new businesses employed 1.4 million more employees than the businesses that closed. The greatest employment gains were in information and communications related businesses while the largest losses came in construction and manufacturing. This fits with the general shift of domestic production to more intellectual property driven product, service and content businesses. (Statistical Handbook 2009).

The report also listed six ongoing challenges that still need to be addressed in order for this situation to be further improved: 1) Lack of skills for business start-up, 2) Lack of global-scale venture companies, 3) Lack of culture to train entrepreneurs, 4) Insufficient financial resources of venture capital firms, 5) Absence of institutional investors in emerging equity exchanges, and 6) [Need to] breakaway from absolute obsession with IPOs. Moreover these reasons address primarily issues needed to create and fund a start-up and do not include the many difficult challenges of sales, marketing, and recruiting faced by new, independent businesses in Japan.

Regarding the first challenge, according to the Global Entrepreneurship Monitor survey of 42 countries, just 15% of working-age adults surveyed in Japan believed they had entrepreneurial skills, ahead only of formerly communist Russia, and was less than half that of third-ranked Taiwan. In addressing this real and perceived weakness, Japan's universities have a formative role to play given their unique position as training grounds for young adults heading into careers, as research centers for developing innovative technologies, and thought centers for expounding new ideas. The recent election sweep of the 50-plus year incumbent LDP showed the population's dissatisfaction with the status-quo. For both the benefit of the country's revitalization and for the new adults who have experienced only the economic dog days of Japan, it is hoped that both its universities and Japan as whole will redouble efforts to increase entrepreneurial activity in both the business sector as well as in government, educational and other organizations.

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