The Role of entrepreneurship and education – a way out of the crisis

Jana Gašparíková

School of Economics and Management in Public Administration, Bratislava

Abstract. This article deals with factors that have influenced the course of the recent global economic crisis – starting first as a financial crisis and leading to a global downturn in economic activity. These economic problems were caused by moral hazard and other significant economic anomalies that must be overcome by various economic reforms: healthy public finances and continuous improvement in entrepreneurship and education. Improving entrepreneurship must be supported by new educational strategies and the new mission of education must promote creativity in multiple aspects of economic and social life.

Keywords: entrepreneurship, new skills, lifelong learning, creativity.

JEL Codes: O16, O21.

1. Causes of economic crises

Recently the entire global economy was very strongly impacted by a financial and economic crisis. The first period was manifested as a crisis in the global financial markets, which subsequently developed into an economic crisis marked by falling global economic output. The financial crisis was influenced by the bankruptcy of several influential investment banks and financial services companies, such as Lehman Brothers in the USA, which then brought a standstill in the activity of other banks in America and Europe. Governments in various countries acted to improve the capitalization of several banks thought to be ‘too big to fail’. By seeking to restore financial flows and to prevent a massive collapse of the real economy, the governments began to act in a very risky way – they began to transfer enormous amounts of public money to the banks.

The actual beginning of the global financial crises was the burst of the mortgage bubble in the USA which led to a standstill in real estate prices and a consequent dramatic fall. The real economy was filled by vast amount of cheap money which was used to support increased consumption by people, for instance via housing and mortgage credits. The crisis was accompanied intermediately by an increase in economic uncertainty and greater intensity in global competition and by promotion of a substantial flow of financial assistance into the global economy. This trend had a direct impact on economic consumption and the continued existence of highly-leveraged companies.

The emerging economic situation was accompanied by a higher number of individuals and companies in debt and that had further consequences on the economy – state governments had to spend more public finances to reduce the financial debt load.

Many catastrophic situations occurred, especially in the USA, which revealed poor redistribution of financial resources. One of the ways out of this situation was that the private sector had to ask the government for help. A way to overcome this unexpected situation was to decrease national deficits and public debt and to decrease public expenditures. Various reforms in the sphere of the public sector could help keep this global economic situation stable or not make it worse. On the other hand it was, and still is, necessary to support the economic competitiveness of enterprises.
Various impacts of the financial and economic crisis still exist and can be overcome by support of three pillars:

a) healthy public finances with balanced public budgets and a relatively-low public debt;

b) sound and continually-improving entrepreneurship, developed particularly through low taxes, a beneficial legal environment, a flexible labour market, a reduction of corruption, and effective public administration;

c) education, research and informatization; a quality education system and an interconnection between research and real economic life (1).

2. Overcoming the crisis

To overcome this economic crisis, economic growth must be bolstered, accompanied by improvement in social well-being. The world’s annual economic growth has generally been around 3.5 percent – but 2009 was an exception as global economic output decreased by about 1 percent. If poorer countries are to catch up with richer countries, they must have annual economic growth of about 5 percent.

One way to promote economic growth is stimulation of industrial production, especially kinds of industrial production that have a strong impact on employment such as, for instance, support of the electronic and automobile industries. A risk of this type of economic stimulation is that the stronger economic position of these sectors could promote overproduction and consequently prolongation of economic crises in the future. (Recent automobile overproduction, for instance, shows that every fourth and fifth new car produced is difficult to sell).

Economic growth does not represent the only dimension that can bolster recovery of the global economy and failure to acknowledge and cultivate these other dimensions could cause an extension of the global economic crisis.

The most important phenomenon supporting economic growth is economic competitiveness, enforced by a legal strategy that is linked to protection of institutions and entrepreneurship, particularly because expanding rigorous global competition without a corresponding legal strategy can threaten entrepreneurship.

Moral hazard, which caused the bankruptcy of several investment banks and other financial institutions and consequently led to the deep economic crisis, must be replaced in the future by more ethical socio-economic behavior.

One of the significant possibilities for encouraging such socio-economic behaviour is orientation of various economic incentives towards socially-responsible companies, based on a different type of regulation. More broadly, it can be said that corporate culture in these kinds of companies must be combined with fair business principles that support the backbone of these organizations. A greater emphasis on transparency and information access is now expected in various kinds of economic activity – the complexity of regulation is growing along with the penalties for wrongdoing. Managers can go to prison for fraud, for eco-crimes and potentially for any major health, safety or environmental failure. The incorporation of these types of values into firms and organizations is linked with the ability to integrate these values into strategic planning, decision-making processes, business practices, management systems and other forms of planning.

A combination of legal, regulatory and moral pressure is leading to a changed perception of the goals of business and growing acceptance of the idea that responsible business entails social and environmental
performance and reporting. Many corporations have found opportunities within this changing landscape to develop reputations as leaders in best practices in production and environmental reporting. Another very important consequence of the current economic status quo is that people need to rely more on themselves because corporate loyalty no longer can be expected. Redundancies, relocations, and erosion of workers’ rights and job security have taken their toll. The social landscape is changing as well. The influence of non-governmental organisations has started to become more important – people want to develop their own judgements and are more and more influenced by NGOs.

“If 20th century USA tolerated the opinion that capitalism was an institution with the main goal to increase economic profit and wealth and not as an institution with the main goal to take social care of its citizens – the 21st century, in contrast to this, builds its concept on the idea that each institution needs to respect interests based on the social and biological needs of people because without these presuppositions we cannot speak about prosperity and successful survival” (2, p. 67). We can agree also with Henry Ford, who said that entrepreneurship must be boosted by profit... and without it, it dies out (becomes extinct). If each entrepreneur’s interest is only profit, entrepreneurship also subsequently dies out . Capitalism, then, is humanity’s bastion of benevolence. Under capitalism, there is only a harmony of rational self-interests because a person is only able to benefit himself by showing that he can benefit others (3).

The question is whether the development of the global economy is moving around this trajectory. We can distinguish two tendencies – the strong economic pressure of multinational companies and market influences forming a strong global economy based on a consumer society and the issue of creativity and individualism that supports innovations in society; on the one hand it is a reaction to the massing and globalization of production and on the other hand it is a reaction to the new condition of society that, due its internal dynamism, is tending to support a creative attitude and participation in innovations.

Francis Fukuyama, a professor of political economy in the USA, noted also that these dramatic changes in the socio-economic climate are influenced by changes in the field of social values that are different from the values prevailing in the second half of the 20th century, during the industrial era, in which the most extravagant manifestations of individualism and moral hazard occurred, accompanied by worsening social conditions in most developing countries in the world.

It should be noted that individualism supported by liberal doctrine has many dimensions and can lead to very strong consumerism or to very strong creativity – it depends very much on other social values.

3. Innovation and competitiveness

One of the driving forces that positively influence the economy is innovation. “Innovations have a different position in society than, for instance, consumerism because the prosperity of society in the future will depend on mobilization of people taking part in innovation and creativity (in science, technology, education, entrepreneurship, production, health care, etc.)” (2, p.68)

A stress on creativity brings forth new economic dimensions as is shown, for instance, by recent economic development by several countries that has also supported global economic growth. These countries (for instance, India, China and Brazil) were until now regarded as developing countries but their economic development, accompanied by an increase in innovation, has been very rapid and due to this their international economic ranking is also rising rapidly. Economic analysis of these countries confirms that an innovative approach has come to the foreground and has substantially modified their socio-economic

---

1 This best practice is based on following principles: the behavior of a company, how a company accommodates its policies and the impact of the company’s operations and products with what is most important – the company’s overall contribution to society.
systems. It can be noted that each country should create its own model of an innovative society and develop it and build further new development upon it.

The growth of competitiveness, which is connected with support for innovation, is also very important for economic development. In the new era of a global economy many emerging enterprises want to avoid strong competition. According to a recent study by the INSEAD institute in Fontainebleau, considered as one of the most prestigious institutes, a strategy of ‘blue oceans’ comes to foreground in this regard. The blue oceans represent vast spaces which are not coloured by the red blood of competing enterprises and offer operational space for a new flagship (4). This symbolic description also reflects the role and position of innovations, which support manoeuvring of that new flagship. With the appearance of these innovations, which bring profit to all successful firms, it is possible to see a new discontinuity in the economic system, reflecting the appearance of new, unexpected innovations that abruptly impact and influence economic life.

The most recent phenomenon in the competitive struggle is the impact of radical innovations, those which change the ways of entrepreneurship and enforce immediate adaptation of enterprises to the new economic conditions or their potential bankruptcy. The application of innovations should be completed with new demands oriented on enterprises and on their working process. These demands influence entrepreneurship in a broader sense.

Innovations and knowledge began to be a very important phenomenon in the advancement of many enterprises in the 20th century’s sixties and seventies. This phenomenon is connected with another very important economic phenomenon – the most prosperous enterprises started to improve their performance with decreasing capital. This phenomenon reflected a new economic trend – shifting away from the importance of capital and increasing the importance of knowledge (4, p.58).

It is clear that the contemporary development of the European economic area must involve these innovative approaches. Manuel Barroso, as one of the top representatives of the European Union, clearly understands this situation when in an official proclamation he stressed the role of a sustainable, socially-oriented market economy. The prosperity of society is achieved based on application of innovative approaches and better use of local and regional economic resources.

4. The entrepreneurial environment

A strong focus on the environmental context of organizations is important in the development of a modern economy. One attempt to measure this organizational framework is the MEADOW guidelines (5). The MEADOW guidelines are one of the attempts to measure implementation of the Lisbon strategy in real life and they focus on the environment for innovation from both qualitative and quantitative aspects.

According these guidelines, competition constitutes the primary mechanism that selects certain firms and deselects other firms and the competitive context shapes the firms’ organizational forms and their changes in these forms. This competitive pressure on organizations is reinforced in a globalizing and developing economic setting and it is based on the dynamic capabilities of the firms. It means that organizations must develop dynamic capabilities to create, extend and modify the ways in which they operate if they want to survive and prosper in a competitive context. There is a strong link between organizations and their socio-economic environment.

It is evident that a more open organizational system is important, meaning that organizations should be more and more independent and should concentrate on two types of approaches: entire production based on production or on services and on self-reproduction – regeneration of production processes, abilities and knowledge combined with this activity. This coincides with Peter Drucker’s characteristics of innovation,
“that it is a change that creates a new dimension of performance.” (6). A new dimension is not simply an incremental change but rather reflects an expanded size, scope, or direction.

Organizations based on knowledge should concentrate on general development of human capital: the readiness of an employee to effectively perform (from the point of view of effectiveness and competencies). From this approach, self-production begins to become more and more important and management in this kind of self-production firm must consciously, systematically and consequentially maintain a specific organizational culture. This model of enterprise management is based primarily on the knowledge and abilities of employees and consequently is dependent on the continued integrity of the strategic, entrepreneurial knowledge of the firm.

Assessing this modified situation in firms becomes an important question of tasks, employees’ autonomy, continuous innovation of approaches and sensitivity for continuous change, stress on quality and on assets more than on profits.

The responsibility of employees for good work begins to become an important and key characteristic of the firm. It is necessary to take into account a new aspect: that employees working with information should be regarded as an asset active from the point of view of capital.

All these organizational changes contribute to shifts in the understanding of innovations and their impact on firms and enterprises and their impact on the entire European and global economy.

5. Organizational innovations (external environment)

New institutions and agencies can also be seen appearing in the economic sphere with a primary role of establishing a different orientation to research and innovation. These institutions create partnerships among universities, individuals and firms – a so-called triple helix as the modern symbol for a new division of labour and uses of knowledge. This process of new uses of information supports evolving relationships among accepted and codified knowledge and flexible cooperation among people in organizations as well as flexible management.

Various forms of knowledge exist and it is important to store and be able to select this knowledge. One of the ways to do so is the founding of institutions and firms that are incubators of this knowledge. This networking among universities and enterprises and private research institutions particularly supports cooperative efforts as well as the development of small and medium-sized enterprises.

This kind of networking enriches the economy via virtual effects – it means there is a possibility to collaborate based on networking activity or production among individual firms themselves and this possibility is possible even when these firms are relatively distant from each other. Networking can exist as different types – star networking, horizontal or linear networking (7, p.98). Networking of firms advances a new understanding of innovations in comparison to the past when innovations were understood as a result of a linear process.

This partnership based on networking is also very important for cooperation among firms as it enables accumulation of knowledge and better competitiveness of firms and opens the possibility to develop multiplicative effects. These multiplicative effects mean that the economic activity of one firm is not in the foreground, but rather the joint activity of several firms, mediated by their geographical vicinity.

These new phenomena create new possibilities for better competitiveness of enterprises. In this sense, the issue of clusters begins to be more and more important, enabling competitiveness among firms and also specialized cooperation based on partnerships.

Partnership is fundamental for keeping continuity in economic development for several reasons.
Partnerships start to be effective at various economic levels, especially among firms or among different divisions in an enterprise (for instance between management and individual workers, or in outsourcing, or among individual firms, and particularly during the process of negotiations within a firm).

Partnership places social capital in the foreground, which supports norms of reciprocity and trust. This trust is very important, particularly for emerging economic systems, where cooperation must prevail among firms together with sustainable economic development. It helps to strengthen the functioning of the market as well as participation of various agents and stakeholders, which is also an indispensable condition for the effectiveness of a pro-innovative environment in Europe’s economic area.

In the newer entrant countries of the European Union an absence or shortage of trust can be noted, which limits as well the formation of an effectively-functioning market. It is evident that economically-prosperous countries are those in which there is equilibrium in the entrepreneurial environment regarding the need for partnership and cooperation.

6. Employment and skills

Another important issue connected with the economic and financial crisis and which also appeared with development of entrepreneurship, which must be overcome, is increasing levels of unemployment – as it is one of the dangers accompanying economic crises and might be seen as a possible manifestation of a new economic paradigm. The crisis of employment is connected with crises in social policy and social security. This kind of crisis is worse than a financial crisis because it threatens many people's jobs in various sectors and undermines the foundations of society.

The crisis in unemployment could be accompanied by much social unrest and riots, not only regionally and locally, but globally. The European economic recovery plan, designed by the European Commission in 2008, supports full employment and reintegration of unemployed people into the labour market. One of the possible ways to do this is for unemployed persons to obtain adequate knowledge and professional skills. Educational and training policies concentrating on increasing employment must be focused on support of professional skills.

7. New jobs

The massive application of new technologies to labour and production processes will have an impact on the growth of new jobs in the future, which will inevitably have demands for higher qualifications and education. The European Centre for the Development of Vocational Training (CEDEFOP) estimated that from 2006 to 2020 100 million jobs will be created in Europe, with 19.6 million being new jobs and 80.4 million being vacant jobs opened as people retired.

CEDEFOP estimated that nearly two-thirds of these jobs will be created in the service sector with the largest increase occurring around 2015 when new jobs are expected to be created in the healthcare sector, in business services (for instance in information technologies, insurance and various consultancy services), in social work, in hotels and in other services (8, p.6).

Most jobs in non-manual skilled occupations will require highly-qualified workers; workers with medium educational attainment will increasingly fill skilled occupations. Since overall education rates increase at a faster rate than labour market changes, only half of elementary jobs will be held by workers with low educational attainment. Professional skills will be necessary, especially in these newly-created jobs that will require non-routine tasks, typical for high-skilled occupations. There will be increased demand for skills based on problem-solving tasks and analytical abilities. This challenge is linked with an effort to create a European council for sectors dealing with employment and skills on a European-wide level.
On the other hand, there is a heated discussion about how to work out an analysis of the required skills and demands of the labour market from the viewpoint of the 16 most important sectors that will cover 75 percent of all private jobs offered in the European Union (8). These changes particularly need to be transformed into proposals for new policies – coordinated policies for development of more jobs and strategies for new jobs – that will support not only transfers of information but also the mobility of the labour force.

In accord with these trends there is international cooperation based on programs concentrated on evaluation of changes reflecting the global impact on entrepreneurship. This program will be connected with realization of other types of policies concentrating on new skills and creation of new jobs. All these initiatives must result in a new effort towards flexicurity\(^2\) (similar to new efforts in the area of entrepreneurship which were mentioned earlier).

**8. The issue of lifelong learning**

Another important aspect of this new strategy is lifelong learning, which supports education, skills and training, and also the possibility to foster higher levels of education. Lifelong learning has become a policy priority in educational reforms and in training systems in EU member states. It aims to increase investment in human capital, to facilitate innovation and to promote a more entrepreneurial culture. These activities are implemented under the New Skills for New Jobs Strategy that will help to ensure a better match between skills and labour market needs, a better assessment and anticipation of skills needed by both individuals and companies, and to promote a general up-skilling of the European workforce.

Lifelong learning is important for adults – increasing the number of adult participants from 12.5 percent to 15 percent by 2020 – because two-thirds of the EU’s population has only a high school education and one-third of the population has only an elementary education and from this viewpoint it is necessary to increase educational levels of adults already in the labor force. The European Commission wrote “that by 2020, 16 million more jobs will require high school education and four million more jobs will need medium qualifications, while 12 million fewer jobs will require low qualifications, and that by 2015 a large majority of jobs across sectors will require ICT skills and lifelong learning” [9, p.13).

Since 2007 the Community Integrated Programme on Lifelong Learning has been supporting innovative projects with a European dimension aimed at fostering entrepreneurial attitudes and skills and promoting links between educational institutions and enterprises. The European Social Fund continues to support initiatives in this area at the European, national and local levels.

Lifelong learning is also promoted by other different types of education such as:

- Partnership agreements between schools and businesses
- Courses in working life knowledge and entrepreneurship (training for teachers)
- Intensive courses for potential entrepreneurs

\(^2\) Flexicurity is defined as a policy strategy that attempts, in a synchronous and deliberate way, to improve the flexibility of labor markets, work organization and labor relations on one hand and to enhance employment security and social security on the other hand. This combination is very important and is based on labor legislation, lifelong learning and an appropriate social system. Flexicurity attempts to promote a flexible labor market and a high level of employment and income security. The flexicurity concept takes us from a job security mentality to an employment or employability security mentality. It is a policy approach geared less towards the protection of jobs but more towards the protection of people. The European Council has challenged EU states to pay special attention to flexicurity (a balance between flexibility and security). It is important to strengthen relations aimed at competitiveness, employment and social security in the future and member states are pressed to reform their labor markets and to take into account the concept of flexicurity.
Lifelong learning, influenced by different changes in education, has a direct impact on new forms of organization of work. One of these consequences is the conceptualization of flexicurity in the labour market.

The need for lifelong learning requires a change in the orientation of curricula and a much better harmonization of curricula between various training and learning phases. The tremendous impact of technological change is beginning to accompany employees over their entire working lives and must evoke incentives for their interest in lifelong learning.

9. A new understanding of education - conclusions

This concept of lifelong learning is connected with a new understanding of education and its mission. The new, modern type of higher education is linked with diversity – this concerns not only academic education and its necessity but also how mass education can fulfil the demands of the labour market – and different views and policies are being discussed, for instance in the USA and Japan.

This mass education has a much stronger impact on the diversification of higher education – more and more importantly this is not only in academic education but also in diversification of educational institutions – something that has been influenced by a process which began in the USA around the 1960s that is recognizable also in various EU countries today.

Mass education also brings to the foreground the issue of delineating the critical space in which new and potentially controversial views can be elaborated. There are issues concerning the elite and the masses and how this critical space of knowledge should be shared by the elite and the masses of educated people and within which limits? [10, p.30]

Education is motivated also by a loose relationship among different stakeholders –the state does not have direct control over educational institutions in many European countries but does steer education through various types of contracts, alliance building and partnerships, rather than through hierarchical orders. There is no direct influence on schools but through different types of policies – and through these different types of policies we can see more diverse influences initiated by more equal actors. This relationship is underpinned by different types of networking (among various types of institutions) and governance of educational institutions.

“In contrast to direct government governance, this refers to both state and non-state stakeholders making and influencing decisions that significantly affect the population of a particular organization or in different world communities. The idea of governance blurs the boundaries of the traditional dichotomy – of the state-civil society – into a more recent trichotomy, of the state-economy-civil society”. [11, p.39]

These changes in education bring to the foreground burning issues of future human and social development connected with such important questions as more education and information for people, but connected with more creativity and an ethical dimension in their economic activity and decision-making processes. Creativity must support successful entrepreneurship but without an ethical dimension it does not promote sustainable economic growth and economic development and brings new economic hazards and crises.

This paper is included as part of grant VEGA 2/0206/9 Súčasné trendy vo svetovej ekonomike a znalostná ekonomika.
References:


