

## ENTREPRENEURSHIP AND INNOVATION AS CERTAIN WAY-OUT FROM CURRENT ECONOMIC CRISIS

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***Abstract:** The purpose of this paper is to highlight the question of the relationship between innovation, growth and entrepreneurship as possible path to solve actual global economic crisis. The paper investigates the process of reactualization of the role of entrepreneurship and innovation in modern economy. Actual direction of global economy changes, give increasingly relevance and importance of the innovation and entrepreneurship as a generators of the economic growth. Due to, many countries have recognized these processes as a vital elements of their recovery and development.*

***Keywords:** entrepreneurship, innovation, economic crisis, economic growth, entrepreneurial economy, innovative entrepreneurship*

### 1. INCREASING ROLE OF ENTREPRENEURSHIP AND ENTREPRENEURS IN CONTEMPORARY ECONOMY

The role and functions of entrepreneurship in the new global economy have taken on added significance and face compounded challenges. In recent years, also there has been increasing interest in comparing entrepreneurs from different cultures. Some author found significant differences across cultures in motivations to launch a new business. They concluded that entrepreneurship was not simply a function of opportunity recognition in isolation, but coloured by cultural perception of opportunity. In fact, a environment constitutes the initial conditions facing the entrepreneur.

The most of authors defined entrepreneurship as forming and growing something valuable from virtually nothing; process starts from creating or grasping an opportunity, and then pursuing it. As we mentioned above, entrepreneurship is a very important dynamic process involving opportunities, individuals, organizational contexts, risks, innovation and resources. Furthermore, entrepreneurship is an attitude and capability that diffuses beyond the founding team to all members of its organization.

Entrepreneurship has been recognized as a micro driver of innovation and economic growth. Lastly, entrepreneurship is more than the creation of a business and the wealth associated with it. It is focused on the creation of a new enterprise that serves society and makes a positive change.

Considering the role of entrepreneurship in the crisis, we can see that due to its ability of innovation and growth of investment, entrepreneurship is able to play a vital role in the current financial scenario by creating job opportunities and economic growth.

The key agents of entrepreneurship are entrepreneurs. An entrepreneur is a person who undertakes the creation of an enterprise or business that has the chance of profit (or success). In fact, entrepreneur, as a term, applies to someone who establishes a new entity to offer a new or existing product or service into a new or existing market.

First of all, entrepreneurs create a novel response to an opportunity by recombining people, concepts, and technologies into an original solution. An opportunity evaluation is perhaps the most critical phase of the entrepreneurial process, as it allows the entrepreneur to assess whether the specific new product or service has the needed returns. Entrepreneurs are perceptive and goal-oriented people. The ability to spot business ideas, to launch new products, or open new markets is triggered by the accumulation of confirming or disconfirming evidence as perceived by the entrepreneur. Also, entrepreneurs have a strong need for achievement, or a strong ego-drive. Entrepreneurs strive to make a difference in their own lives or the lives of others.

Entrepreneurship can consist of innovation or the introduction of creative change and change is generally considered as part of the entrepreneurial expectation. In that sense, the entrepreneur is a *change agent*. Therefore, more innovators need to be entrepreneurial, and more entrepreneurs need to be innovative.

## 2. KEY ROLE OF INNOVATION IN CONTEMPORARY ECONOMY

**It is generally known that the key fundamental drivers of sustainable prosperity are innovation and productivity growth**, and their interaction over time. Although an innovation is successful only with a good idea and efforts to convert the idea into a *marketable* tangible product or service, innovations are usually investigated in three distinct research agendas: *new product development*, *process innovations* and *management innovations*. Once more, innovation is the process of putting ideas into useful form and bringing them to market, and, due to, innovation is the true engine of economic growth. Many authors described innovation as a virtuous circle of research, development and application, all of which must be pursued together in order to maintain a competitive edge. Therefore, we also think that innovations are the best - and maybe the only - way the countries like Serbia can get out of its economic and financial problems.

Also, we deeply believe that innovation requires radical change and a new vision, one that integrates the marketing, engineering and industrial design attributes necessary to succeed in globalized economy.

According to the OECD, innovation is the implementation of a new or significantly improved product (good or service) or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations of a company.<sup>1</sup>

Innovations transform economies into the knowledge-based economy and alter global relations and produce new structures of social control. Innovation can be developed in order to activate demand, by finding new ways of marketing products or services, but also through new applications of technology which will facilitate fast and efficient operation of the distribution network and conduction of transactions. Also, innovations and ideas that may arise from new research and data in the field of marketing could serve as a way-out from the current economic crisis.

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<sup>1</sup> OECD, *Oslo Manual*, Paris, 2005, p. 30.

Successful innovation requires contributions from managers, salespeople and customers just as much, if not more than, researchers and scientists. Therefore, without *entrepreneurs* there can be no future, yet without people able to work in an efficient, consistent manner there can be no present. In short, the promise of an innovative, entrepreneurial and competitive economy is being held out as the so-called panacea for economic ills. Innovation has become an increasingly complex process with an increasing number of interacting actors involved. Therefore, we need both individual and corporate entrepreneurship, innovation and operational excellence at the same time.

In this sense there are a few key innovation dimension:

- *Pragmatic*. A focus on converting ideas into revenue growth and profits.
- *Customer-centric*. Discovering and serving customer needs, both explicit and hidden, to create a differentiated customer experience.
- *Open*. Cast a wide net to capture the best ideas from internal and external sources, and the capability to capitalize on them.
- *Holistic*. Innovation isn't just about technology or a new product, but also your brand, operating environment, employees, the impact on your business ecosystem, and the impact on society.
- *Controlled experimentation*. Creating a culture that encourages organizations to experiment, rapidly prototype new ideas, and learn and capture new knowledge.<sup>2</sup>

In other words, innovation is a pervasive phenomenon, whose effects are often ambivalent, i.e. leading to opposite direction, depending on the goals of the innovator, the technological opportunities as well as the society constraints.

### 3. INNOVATION AND ECONOMIC GROWTH

The role of innovation for growth is strengthened by advances in new technologies, and a greater focus on knowledge creation and use of new knowledge.

Generally, innovations have improved consumer welfare through the introduction of new goods and services, improvements in the quality and lower costs of existing products. They also revolutionized the organization of production, not just the 'technology' of production as narrowly conceived, but also the management and global reach of corporations around the world. In short, innovation refers to a broad range of activities aimed in part at incremental improvements to existing products, processes, services ("new ways of making current products better, faster, cheaper") and in part at revolutionary, breakthrough developments ("creating something not previously created").

The so-called "new growth theory" has exploited this old Schumpeterian idea to formalize the link between innovation and long run growth. According this theory (Romer 1986, 1990) differences in economic development across countries should be understood as the outcome of differences in endogenous knowledge accumulation within borders.

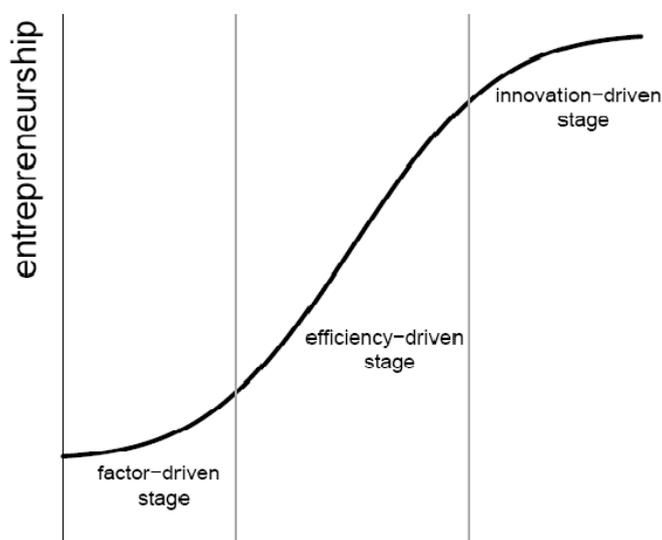
Investments in innovation can be of strategic importance for long-term growth. Most growth comes from improvements in efficiency and new technologies. The crisis causes some of these types of investments to fade away, but governments are trying to cushion the fall in private research and development (R&D) spending through support for private R&D. Many countries are investing in research infrastructure because it can be a double-

<sup>2</sup> *Manufacturing Innovation*, Cisco White Paper, 2010, p. 8

dividend improvement. Many countries are also trying to connect spending in research, development and innovation to the market.

The Global Entrepreneurship Monitor<sup>3</sup>, a program initiated by Babson College and the London Business School to assess entrepreneurial activity around the world, explores the link between economic growth and entrepreneurship. The 2008 report discusses this positive relationship in terms of the diverse phases of economic development that vary from country to country:

- **Factor-driven economies** (economies relying on unskilled labor and natural resource extraction) will need to focus on institution-building, infrastructure and the provision of such basic services as healthcare.
- **Efficiency-driven economies** (growing economies in need of improving production processes and quality) will be most concerned with such priorities as domestic and/or foreign market size, financial market sophistication and labor market efficiency.
- **Innovation-driven economies** (the most-advanced stage in which businesses compete primarily on the basis of innovation) will have needs related to entrepreneurship-specific education and research and development.<sup>4</sup>



**Figure 1:** Entrepreneurship and the corresponding stages of economic development<sup>5</sup>

During economic downturns, innovation is the single most important condition for transforming the crisis into an opportunity. Also, while many businesses simply won't be able to afford further investment in innovation, governments should recognize that innovation

<sup>3</sup> [www.gemconsortium.org/default.aspx](http://www.gemconsortium.org/default.aspx)

<sup>4</sup> *Entrepreneurship and Innovation: The keys to global economic recovery*, Ernst & Young, 2009

<sup>5</sup> Zoltan J. Ács and Wim Naudé, *Entrepreneurship, Stages of Development, and Industrialization*, UNU-WIDER, Working Paper No. 2011/80, November 2011

systems, with all their academic, industrial, and public components, are strategic national assets that need to be protected, just like the financial and housing sectors.

Figure 1 shows the relationship between entrepreneurship and economic development. Entrepreneurship is considered to be an important mechanism for economic development through employment, innovation, and welfare.

The S-curve suggests that in the factor-driven stage a relatively small amount of entrepreneurial activity is productive, that is, it creates economic and/or social value. As mentioned earlier, this increases sharply through the efficiency-driven stage and levels off in the innovation-driven stage of development. As institutions are strengthened more and more entrepreneurial activity is shifted towards productive entrepreneurship strengthening economic development.

#### **4. ECONOMIC CRISIS IS THE RIGHT TIME FOR INNOVATION AND ENTREPRENEURSHIP**

If innovation is a key stimulant of economic growth, entrepreneurs are synonymous with innovation — and there's no time like a downturn to take advantage of entrepreneurial thinking. Unfortunately, public policy is not always friendly to innovation. During severe economic crises, governments often turn to policies that restrict or close the doors to what innovators need most: an open flow of people, goods, services and ideas.

It is obvious, we think that the current economic and financial crisis is the first of this severity to hit developed countries since they have shifted to knowledge-based service economies. We think that the problem of the current economic crisis is not, inherently and mainly, a problem of supply, but a problem of active demand for goods and services. Although the global, hypercompetitive nature of the current business environment makes any competitive advantage short-lived, it would be a mistake to view these turbulent times as anything other than an unparalleled era of opportunity. Therefore, we accept opinion of many authors that current economic crisis can provide a perfect backdrop for disruptive or radical innovation. Moreover, we believe that economic crises are also historically times of industrial renewal and new economic take-off.

Shortly, the current financial and economic crisis is providing the impetus for new entrepreneurs to take the step into self-determination and to build the employment base for the future. Furthermore, we think there is nothing like a good economic crisis to fuel the growth of new innovative energetic businesses.

However, without brilliant engineers and competent management, the most advanced technology can wind up on the scrap heap of business history, or even worse, usurped by a competitor. Moreover, some authors suggests that, for some companies, the economic crisis can actually provide an innovation platform. While many organizations are focused on being solvent in this current economic crisis, companies with strong balance sheet should continue to focus their R&D effort on radical, or disruptive innovation. Also, we believe that in a current economic crisis an entrepreneurial culture will be a new “modus operandi” that will drive individuals, organizations, and societies towards an expanding set of new possibilities, ensuring not only business survival, but also self-renewal and the long-term health and well-being of the economy and society.

Also, the current economic and social crisis invites us to discuss “sustainable innovation” or “environmental innovation” as a basis for a new techno-economic (and social) para-

digm founded on new technologies, and savings of energy and resources and on the development of renewable energies. In this context public policies to support innovation are henceforth at the root of all scientific and technological initiatives.

In this process government can act as a catalyst to greater entrepreneurial action without serving as the agent of action itself. It should invest in upstream areas, such as education, as well as remove obstacles and encourage new forms of investment. For market fundamentalists, government is always the problem, not the solution. But over the centuries, there are many examples of governments that have led the process of economic development in their societies.

Indeed, the crisis is providing multiple opportunities for governments to take decisive action on innovation. Given the deeply intertwined nature of the modern global innovation system, they should act collaboratively — as they have already begun to do in addressing the problems of the global financial system. International cooperation at this level has been all too rare in recent years.

## **5. NECESSITY OF FOSTERING ENTREPRENEURSHIP AND CULTURE OF INNOVATIVE ENTREPRENEURSHIP IN CRISIS**

Strengthening and fostering entrepreneurship means channeling entrepreneurial drive into a dynamic process that takes advantage of all the opportunities the economy can provide. To flourish, entrepreneurship requires efficient financial markets, a flexible labor market, a simpler and more transparent corporate taxation system, and business rules better adapted to the realities of the modern business world.

Enterprises large and small have great trouble sustaining long-term superior performance. Even with large R&D budgets, success at innovation is not automatic. The innovation process requires active orchestration of both intangible and tangible assets by entrepreneurs and managers. This is true whether the context is the small or the large enterprise.<sup>6</sup> Moreover, we have remember that the high-growth companies have been built by entrepreneurs with: 1) an innovative idea, 2) great ambitions and 3) significant market and business related skills. In short, entrepreneurship is a great mechanism to deliver new ideas, unique approaches and innovative technologies. When conducted in a proper way, turning people into entrepreneurs improves a country's economic situation and aids sustainable progress. However, transition to become an entrepreneur is not that aspiring to all. Risks and uncertainties involved in starting a new business coupled with stagnant economy discourage people to step up the plate and take a game. Therefore, teaching of entrepreneurial skills at all education levels, from elementary school through university, has a significant impact on levels of entrepreneurship throughout the world.

Fostering Entrepreneurship is commonly viewed in the light of economic growth, competitiveness and job-creation. But this perception falls short on the social relevance entrepreneurship has for society. In fact, ever faster structural and competitive economic changes are leading to significant changes in society. This affects the individual life plans of particularly the youth and requires an increasing degree of self-reliance. In this context, fostering entrepreneurship and self-employment also provides the population with a ca-

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<sup>6</sup> David J. Teece, "The role of managers, entrepreneurs and the literati in enterprise performance and economic growth", *Int. J. Technological Learning, Innovation and Development*, Vol. 1, No. 1, 2007

reer option parts of society might be better suited with to meet the changing demands of new economies. In this respect fostering entrepreneurship is not only an economic but a socioeconomic task for most economies.

## 6. CREATING A CULTURE OF INNOVATIVE ENTREPRENEURSHIP

As we stressed, entrepreneurship has more to it than just self-employment and hard work; to express its full potential one needs to put emphasis on the generation and development of ideas. Research on creativity suggests that all of us are able to engage in this kind of creative activity. Entrepreneurial initiative covers the concepts of creation, risk-taking, renewal or innovation inside or outside an existing organization. Promoting innovative entrepreneurship is therefore a central concern for government and industry. Innovative entrepreneurship is becoming the cornerstone of economic growth in the developed world. Entrepreneurship education and research are seen as important means to foster entrepreneurial culture. Lastly, innovative entrepreneurship need not rely on inspiration or luck, but can be fostered. Innovative entrepreneurs create ideas and have the ambition to build them into high-growth enterprises. Fostering innovative entrepreneurship is critical to our future competitiveness. It is these innovative entrepreneurs who are more likely to seek growth, create the majority of jobs and wealth, and therefore contribute to closing the productivity gap. Improvements in productivity are crucial to raising long-term economic performance and increasing living standards. Regardless of its traditional antipathy to innovators, every corporation must search for, recognize, communicate with, support, reward, publicly thank and stimulate actions of its quiet “positive deviants.” Working with, instead of against, the corporation’s silent innovators will require a significant shift in corporate ideas regarding risk. Firms must be intentional in creating an environment where appropriate risk is welcome and corporate incentives must likewise be designed to reduce risk-averse behavior. In other words, we can develop a tentative and working definition of the innovative entrepreneur as follows: a person who identifies an opportunity from an innovation, whether social or commercial, evaluates its market potential based on their own knowledge networks, financial or educational capital, and establishes an organizational structure, either within an existing entity or by creating a new one, that allows that innovation to be developed. Of course, it is important to distinguish between the “innovative entrepreneur” and the “innovation process”. Overall, the innovation process is the interaction between individuals within an organization or business once the innovative entrepreneur has identified, articulated and articulated a strategy to implement a commercial opportunity from an innovation. However, the “innovative entrepreneur” is an individual and the interest of any further work should be on identifying their attributes, the sources of their ideas, their finance, their social capital networks, their knowledge capital and, of course, the challenges and barriers that they face. In Schumpeterian light “innovative entrepreneur” is the hero of the business drama. First of all, he must be able to identify opportunities to define a new winning business models which come in variety forms in turbulent environment. Becoming a **successful entrepreneur** does not require a lot of money but require innovative ideas and a strong urge to do something extraordinary and prove oneself. It is amazing that there is no need of huge investment to become an entrepreneur. Because, if this would be the major requirement then none of the following would have existed who have created history of economic and business successes.

## 7. CONCLUSION

Entrepreneurship and innovation provide a way for many people and professionals to overcome the global challenges of today, building sustainable development, creating jobs, generating renewed economic growth and advancing human welfare. Innovation create new products that respond to what customers are looking for and succeed in the marketplace. Technological innovation is the best, and perhaps the only, way to overcome an economic crisis, and for that we do not need an indiscriminate expansive financial policy.

Moreover, during economic recession, innovation is the single most important condition for transforming the crisis into an opportunity. Also, while many businesses simply won't be able to afford further investment in innovation, governments should recognize that innovation systems, with all their academic, industrial, and public components, are strategic national assets that need to be protected, just like the financial sectors.

Entrepreneurialism does more than rise to this challenge. In chastened times, it also spreads beyond the economy - into arts and culture, academia, professions, even pure science, which must fight harder for public interest when the public purse is otherwise engaged.

Therefore, individual initiative must not be devalued by arguing that businesses do well (or badly) because of background factors: strong science research, a supportive legal framework, efficiency government, or just an "entrepreneurial culture" that makes businesses easy to form and transform.

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