

Recessions' and Crises' Effect on Entrepreneurship in ASEAN

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Abstract

This article provides a critical overview of empirical studies on the effect of recessions and crises on different types of entrepreneurial activities in many countries including ASEAN members. Entrepreneurs play a significant role in all economies and are the key generators of employment and income, and drivers of innovation and growth. During recessions and crises, most entrepreneurs in Southeast Asia suffered from demand shock and credit crunch. However, the severity of credit crunch differed across countries. Current literature suggests that, on one hand, financial crises lead to negative impacts on entrepreneurial start-ups, international entrepreneurship and entrepreneurial innovation through deteriorated sources of funding which is consistent with the idea of opportunity entrepreneurship. But on the other hand, recessions and crises can indeed be a breeding ground for entrepreneurship and innovation, and provide new sources of growth, which supports the idea of necessity entrepreneurs. The objective of this article is to provide a critical overview of the effect of recessions and crises on different types of entrepreneurial activities, namely opportunity and necessity entrepreneurship, and to identify appropriate government policies that will enhance entrepreneurship performance in ASEAN.

Keywords: Entrepreneurship, Recessions, Crises, ASEAN

1. Introduction

Most economists agree that entrepreneurship is essential to the strength of an economy. Entrepreneurs create new businesses, generating jobs for themselves and those they employ. In many cases, entrepreneurial activity increases competition and, with technological or operational changes, it can increase productivity as well as improve overall standard of living and GDP. International and regional institutions, such as the United Nations and the Organization for Economic Cooperation and Development (OECD), agree that entrepreneurs can play a crucial role in mobilizing resources and promoting economic growth and socio-economic development. In the European Union, entrepreneurs account for over 99 % of all enterprises. Furthermore, 91 % of these enterprises are micro-firms with less than 10 workers (OECD, 2009). Given their importance in all economies, they are essential for the economic recovery.

According to ASEAN Policy Blueprint for SME Development 2004-2014 (APBSD), entrepreneurship and SMEs are the backbone of the ASEAN economies. They are also the largest source of domestic employment across all economic sectors and in both rural and urban areas. The SME sector also provides opportunities for women and youth to participate in the economic development of the country. A strong, dynamic and efficient SME sector will ensure the

sustainable, inclusive and broad-based economic and social development. A vibrant SME sector is critical in supporting closer regional integration through the establishment of the ASEAN Community, particularly the ASEAN Economic Community (AEC). Thus, the encouragement and promotion of competitive and innovative entrepreneurship and SMEs is necessary in contributing to greater economic growth and social development towards more inclusive and broad-based integration of the ASEAN region.

According to the 2006 Summary Results of the Global Entrepreneurship Monitor (GEM) project, "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." The GEM project is a multi-country study of entrepreneurship and economic growth. Founded and sponsored by Babson College (USA) and the London Business School in 1999, the study included 42 countries by 2006.

Recessions and crises have a large effect on business closing and foreclosures. However, they also affect rate of business creation. In ASEAN countries, recent global financial crisis and economic crisis affected negatively on economic development in the ASEAN region and also affected the demand for labor in the formal sector of ASEAN Economies. Job recruitments slowed down or at stand-still, working hours were reduced as well as a downward pressure on wages. Significant job losses have been recorded in some sectors in ASEAN countries such as garments sector in Cambodia, Indonesia and Vietnam (The ASEAN Secretariat, 2009). In a way, the crisis has brought about a "rethinking" among ASEAN governments in focusing on promoting and development of entrepreneurship and SMEs. According to UNCTAD (2011), Singapore has adopted a strategy which entrepreneurship to be a driver of Singapore's economy. As a result of the financial crisis during 1997-2003, the Minister in charge of Entrepreneurship was appointed as well as establishment of The Action Community for Entrepreneurship (ACE) which is a public-private sector collaboration to enhance entrepreneurship landscape, and SPRING Singapore which is the government agency that promote enterprise development.

On one hand, entrepreneurs suffer from demand shock and credit crunch caused by recessions, but on the other hand, recessions are claimed to provide laid-off workers with the motivation to start their own businesses, namely, necessity entrepreneurship rather than opportunity entrepreneurship. However, some literature found that necessity entrepreneurship has no effect on economic development while opportunity entrepreneurship has a positive and significant effect (Acs, 2006). The net effect of recessions on entrepreneurs is still ambiguous. Recessions and crises consisting of financial and trade shocks have affected entrepreneurial activities. However, recessions and crises affect entrepreneurial activities differently in different countries and entrepreneurs who were affected by recessions and crises can play a vital role in an economy.

Thailand has one of the highest levels of entrepreneurship in the world as measured by the Global Entrepreneurship Monitor's Early Stage Entrepreneurial Activity rate at about 20%. The SME sector also appears to have been growing, with the number of recorded SMEs increasing more than three-fold to 2.8 million between 1997 and 2008, although much of this apparent increase is likely to result from improved monitoring of SMEs. The proportion of entrepreneurs who have been motivated by necessity, such as a lack of alternative income opportunities, is high at approximately 30%, pointing to a lack of alternative job (OECD, 2011). These "necessity" entrepreneurs frequently, but not always, have low productivity, lack growth potential and offer poor income and employment conditions. Gaps in technological readiness are an important obstacle to the development of a more productive entrepreneurship, less orientated to responding to necessity, and the stimulation of greater SME innovation and internationalization. Innovation and productivity increases are currently held back by a lack of technological capacities in SMEs to absorb innovation from external sources and to innovate incrementally, and weaknesses in the surrounding research and innovation system.

Entrepreneurship is an important engine of growth. Government policy, in turn, shapes the institutional environment in which entrepreneurial decisions are made. Thus, government policy is important for entrepreneurship, especially in Thailand where high proportion of entrepreneurs is necessity-based as a result of the financial crisis. Government policy targeting on enhancing entrepreneurs' productivity and sustainability is very crucial.

The objective of this article is to provide a critical overview of the effect of recessions and crises on different types of entrepreneurial activities, namely opportunity and necessity entrepreneurship and to identify appropriate government policies that will enhance entrepreneurship performance in ASEAN.

2. Define Entrepreneurship

The entrepreneurship is a subtle character in economic theory due to the difficulty of providing an accurate description. The theoretical definitions of entrepreneurship are wide and cover a number of entrepreneurial activities. The early work of Schumpeter (1911) established conceptually the "entrepreneur as innovator" as a key figure in driving economic development. The innovative activity of entrepreneurs feeds a creative "destruction process" (Schumpeter, 1942) by causing constant disturbances to an economic system in equilibrium, creating opportunities for economic rent. In adjusting to equilibrium, other innovations are spun-off and more entrepreneurs enter the economic system. In this way, Schumpeter's theory predicts that an increase in the number of entrepreneurs leads to an increase in economic growth. Cantillon (1755) claims that "Undertaker" are a class of economic agents, making decisions on market transactions in the face of uncertainty. Knight (1921) defines entrepreneurship as dealing with uncertainty, making distinction between risk, which can be calculated, and uncertainty, which

cannot. Schumpeter (1934) describes the entrepreneur as the bearer of the mechanism for change and economic development, and entrepreneurship as undertaking of new ideas and new combinations, i.e. innovations. Kirzner (1973) depicts entrepreneurs as people who are alert enough to spot previously unseen profit opportunities and then act on them. According to Wennekers and Thurik (1996), entrepreneurship is the manifest ability and willingness of individuals, on their own, in teams, within or outside existing organizations to perceive and create new economic opportunities (new products, new production methods, new organizational schemes and new product-market combinations), and to introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions. Heibrunn (2005) defined it as a dynamic process involving opportunities, individuals, organizational context, risk, innovation and resources. Morrison (2006) defined entrepreneurship as forming and growing something valuable from virtually nothing; process starts from creating or grasping an opportunity, and then pursuing it.

3. Recessions And Crises's Effect On Entrepreneurship

When consider the effect of crises and recessions on entrepreneurial activity, it is important to focus on different types of entrepreneurship that can occur in such economic conditions. According to Reynolds et al. (2002), the Global Entrepreneurship Monitor (GEM) introduced two types of entrepreneurship, namely opportunity and necessity entrepreneurs which are differentiated by motivation of the entrepreneurs to start their businesses. Opportunity entrepreneurs are perceived as entrepreneurs who start a business in order to pursue and to take advantage of business opportunities while necessity entrepreneurship is more need-based (Reynolds et al., 2005) and individuals involved in entrepreneurial activities are not satisfied with the current job or because of no better choices for work. On the one hand economic downturns discourage opportunity entrepreneurship, by reducing the profitability of good ideas. On the other hand, downturns induce increases in the rate of necessity entrepreneurship, where individuals create businesses primarily because of involuntary job loss and the scarcity of vacancies (Blau (1987), Evans and Leighton (1990), Blanchflower and Meyer (1994)). Some literatures support the idea of opportunity entrepreneurs and found that the economic crisis led to a contraction in new business employment, and productivity changes for existing businesses (Banerjee and Newman (1993), Cagetti and De Nardi (2005a, 2005b), Gries and Naudé (2008), Naudé et al. (2008)). According to Naudé and Rossouw (2010), in developing countries, entrepreneurs tend to be found predominantly in small-and-medium sized firms. More and more small and young firms in developing countries have been internationalizing at an early age in recent years and credit crunch and decline in export demand associated with a global economic crisis will therefore potentially squeeze these international entrepreneurs from both demand and supply side. Because growth and public revenue in developing countries tend to be more export-driven or dependent than in many developed countries with larger internal markets, such

a global shock will lead to a disproportionately negative impact on entrepreneurial start-ups, international entrepreneurship and entrepreneurial innovation in developing countries since a major reason for entrepreneurs to absorb innovations is to be able to compete internationally and with international firms, a global shock removes this incentive. Naudé (2010) show how a global economic crisis consisting of financial and a trade shock can undermine structural change in developing countries via the start-up and innovation activities of entrepreneurs. Their model identify a number of challenges for structural change during crisis, including higher cost of bank monitoring and stricter regulations and collateral requirements and reduced incentives for innovation and job-creating start-up activities.

However, Rissman (2003) provides a support to necessity entrepreneurship concept and focuses on the importance of taking labor market condition into account when analyzing the decision to be self-employed and concludes that self-employment is counter-cyclical. Aaronson et al. (2004) find some evidence that support Rissman's conclusion by analyzing Current Population Survey data for the U.S. where higher rates of unemployment are associated with higher rates of self-employment. According to Won (2007), entrepreneurship plays important role in the crisis because of its ability of innovation and growth of investment; it is able to play a vital role in the current financial crisis by creating job opportunities and economic growth. Bartlett (2008) states that economic crisis and recession provides good opportunities for medium sized firms where they can undertake counter-cyclical moves that strengthen their competitive position such as lean enterprise campaigns, strategic acquisitions and hiring talented employees released by downsizing companies. Fairlie (2011) uses Current Population Survey (CPS) during the period of 1996 to 2009 to conduct an analysis of the determinants of entrepreneurship in order to investigate the effect of recessions on business creation. The result suggests that the lack of better opportunities in the wage / salary sector has positive effects on individuals turning to self-employed ownership which outweigh the negative effects of limited demand and access to capital.

The Asian 1997 economic crisis provides an opportunity by which to examine the resilience of enterprises. World Bank (2000) tried to investigate the relative impact of the crisis by the size of enterprises by examining the effects on capacity utilization and employment. Theoretically, it is expected that in a sharp macroeconomic downturn, many enterprises will, if not die out, reduce their production volumes and hence their employment, and thus the capacity utilization and employment rates in these enterprises will decline. According to studies in some ASEAN countries, Berry et al. (2001) concludes that in Indonesia, SMEs weathered the crisis well because their great flexibility allowed them to adjust production processes during a difficult period; although many of them were hit hard. Many have argued that being less reliant on formal markets and formal credit, SMEs are able to respond quickly and flexibly to sudden shocks. However, in Thailand, they find that the overall share of SMEs in total employment fell from 60% to 52% although it later picked up to 65% in 2000. The share of the smallest firms (with fewer than 10 workers) declined from 12% to 6%. Richard et al. (2002) found for Vietnam that country's SME exports are

mainly directed to other Asian countries. Jomo et al. (1999) shows for Malaysia that the successful participation of SMEs in the export trade requires often communication and collaboration among SMEs, big domestic firms and foreign buyers. However, such links do not come about spontaneously and region governments may play supportive and facilitating role. According to Regional and Country Report of the ASEAN Assessment of the Social Impact of the Global Financial Crisis (2010), Malaysia has been hit hard by the global financial crisis through the decline in global demand for its exports, the negative impact on labor market caused an increase of entrepreneurs in retail sector. The results of the fourth annual Start-up Enterprise Survey (Steps), conducted by credit and business-information bureau DP Information Group (DP Info) from last December to February this year has revealed that the Singapore Start-ups have survived the economic crisis quiet resiliently. 1,982 businesses, companies and partnerships, which have been in operation for fewer than three years, participated in this year's survey.

Relationship of entrepreneurial activities and financial crisis is analyzed in the case of Thailand during the financial crisis period of 1997-2001. Anna and Robert (2005) investigate the relationship between financial constraints and entrepreneurship by dividing household businesses into three groups; pre-crisis, crisis, and post crisis periods. Their result shows that during the pre-crisis period, the likelihood that a household starts a business is positively related to pre-existing wealth. On the contrary, during the crisis and post-crisis periods, there is no statistically significant relationship between the wealth and the likelihood of starting a business. Moreover, they observe that the number of household businesses in Thailand nearly triple during the crisis, however, businesses started during the crisis tend to have very low initial investment. Their findings suggest that the importance of financial constraints decreases during the crisis and the post-crisis periods. Evans and Jovanovic (1989)'s model provides an understanding in the increase in entrepreneurial activities during the Thai financial crisis in 1997 which supports Fairlie (2001)'s result. Their model shows that more businesses are started as the returns to entrepreneurial activity exceed wages during the time that wages fall. In addition, the model also implies that new businesses are run by less talented entrepreneurs and tend to be capitalized at lower levels. In Thailand, as alternatives to employment worsened during the financial crisis, deteriorating wage employment option led households to start their businesses. Low capital business opportunities were more attractive during the crisis which is consistent with the concept of necessity entrepreneurship.

4. Policy Implication

Entrepreneurship and SMEs are important ASEAN countries' economies and they are essential for the economic recovery. Helping entrepreneurs helps the whole economy to regain strength and to return to sustainable growth. Entrepreneurs need special attention in the recessions. The entrepreneurship and SME sector in ASEAN, however, is confronted with a wide-range of structural, financial and other challenges, among which are limited access to finance, technologies and markets. There is also the question of entrepreneurial spirit and management

skills among ASEAN SMEs. These problems are compounded by the lack of information, inadequate capacity for compliance with standards and certification, and the absence of a more conducive business and policy environment. Overcoming the difficult conditions for entrepreneurs and SMEs requires effective short-term measures that need to be associated with structural improvement in entrepreneur financial environment in long term in order to create sustainable growth. To be specific, there is a need for reliable governance, tax, regulatory and legal frameworks that provide a level playing field for all economic entities regardless of size. In particular, there are examples of policies to support entrepreneurs and SMEs;

- Assisting innovative start-ups and high-growth entrepreneurs in ASEAN by insuring adequate funding, especially at times of recessions.
- Reducing taxes on capital gains for entrepreneurship investment by venture capital funds in ASEAN.
- Improving entrepreneurship financial environment in the long term regarding credit risk evaluation and credit access such as develop complement of programs or approaches to provide entrepreneurial and SME financing with little collateral. This includes credit insurance or guarantee schemes, credit rating or borrower risk rating, and training local financial institutions on risk management and borrower risk rating.
- Improving government measures in terms of provision of entrepreneur-related information, for example, build a database and information system in ASEAN for business matching.
- Building entrepreneurs' competencies through financial training programs.
- Lowering entrepreneurial and industrial restriction and bureaucratic red tape that hinder entrepreneur competitiveness.
- Reducing trade barriers by providing market access.
- Investing in human capital to solve the problem of ineffective enterprise education and a lack of qualified management where strategic and creative thinking skills are needed. For example, Nanyang Technological University in Singapore (NTU) offers Master of Science in Technopreneurship & Innovation Programme and "Yes" school which is Grant for schools to promote entrepreneurship among students and nurture budding young entrepreneurs through "learning by doing" (Guide Me Singapore, 2010). Malaysian government adopted a stimulus package that includes expansion of the PROSPER graduate program that offers financing to develop young entrepreneurs (ASEAN, 2010).
- Develop business advisory, entrepreneurial and financial management services for SMEs.
- Facilitate collaborations among entrepreneurs and SMEs in ASEAN to meet international standards.

5. Conclusion

Even though no one can agree on a single definition of entrepreneurship, entrepreneurship has long been a vehicle of economic growth. For many developing countries and ASEAN, entrepreneurial development has been a powerful engine of economic growth and wealth creation, and crucial for improving the quality, number and variety of employment opportunities for the poor. Economically, entrepreneurship invigorates markets. The formations of new businesses lead to a job creation and have a multiplying effect to the economy. Socially, entrepreneurship empowers people, change mindsets that help integrating developing countries into the global economy. During recessions and crises, most entrepreneurs in ASEAN suffer from the demand shock which leads to credit crunch. However, the severity of credit crunch differs across countries. Current literature suggests that, on the one hand, financial crises will lead to negative impact on entrepreneurial start-ups, international entrepreneurship and entrepreneurial innovation through deteriorated source of funding which are consistent to the idea of opportunity entrepreneurship. But on the other hand recessions and crises can indeed be a breeding ground for entrepreneurship and innovation, and provide new sources of growth, which supports the idea of necessity entrepreneurs. Since entrepreneurship is closely linked to creativity and innovation, entrepreneurs must have something new to offer, and find new ways of getting in the market, making something new as well as doing things differently. In addition, governments also have crucial role in improve entrepreneurship environment in terms of financial and regulations in order to make entrepreneurship more attractive and sustainable. Certainly, entrepreneurs have always relied on their creativity to produce wealth, but the modern creative entrepreneur goes further. John Howkins (2001) defines creative entrepreneurs as people who 'use creativity to unlock the wealth that lies within themselves' rather than external capital. The value they create lies not in their physical products (if any) but in intangible assets such as their brand, reputation, network and intellectual property. They are adept at projecting a desired image and creating a personal brand, both online and offline. They also understand the principles of intellectual property law and use copyrights, trademarks, patents and licenses to exploit the full potential of their ideas (Howkins, 2001). This so called 'creative entrepreneurship' which is the practice of setting up a in one of the creative industries with the focus of creating and exploiting creative or intellectual capital, could be a path out of the crisis, especially among ASEAN members. Moreover, according to literature, necessity entrepreneurs flourished during the financial crisis in Thailand. It is interesting to conduct a further research of an impact of this particular type of entrepreneurship on Thai economic growth as well as policy implication to enhance the necessity entrepreneurship performance.

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