

# **5<sup>th</sup> Hitachi Young Leaders Initiative**

## **CULTIVATING AN ENTREPRENEURIAL SPIRIT IN ASIA**

### *Team members:*

Nina Juliana	Indonesia
Kanae Hayashi	Japan
Mika Furuhashi	Japan
Ang Hean Leng	Malaysia
Marie Grace Tee Vera Cruz	Philippines
Mustafa Izzudin	Singapore
Goh Tuo Yang, Gerald	Singapore
Charoen Jiewsang	Thailand

### **Key Statement:**

*Developing an entrepreneurial spirit is a requisite for sustaining development in Asian countries.*

## **I Introduction**

After the 1997 Asian financial crisis, governments, especially in Asia, realized that foreign direct investment (FDI) was not sustainable or even a reliable resource for economic development. Many governments in Asia adopted policies focusing more on cultivating indigenous entrepreneurship rather than placing too much emphasis on FDIs as a sustainable catalyst for economic growth in their countries.

Developing ‘entrepreneurship’ has emerged as a vital force in managing the challenges of an economically ‘unbalanced’ world. Promoting entrepreneurship will encourage visionaries to create opportunities out of obstacles. It will also ensure traditional craft innovations can ride on current global fads in popular culture. The leaders among our youth, with their passion, idealism and openness, could play a pivotal role in cultivating such entrepreneurial drive.

The current economic stagnation in many Asian countries underscores the fact that in order for countries to grow economically, they must give importance to cultivating

an entrepreneurial spirit in their respective countries, and eventually in the broader Asian region. According to the 2000 Global Entrepreneurship Monitor (GEM) study, the level of entrepreneurship spirit of a country is directly correlated to its level of economic growth. Hence in order to grow economically, countries must give importance to the cultivation of a larger pool of entrepreneurs in their respective countries, and eventually Asia.

## **II Defining entrepreneurs**

According to the Cambridge Dictionary of English, an entrepreneur is “a person who attempts to make a profit by starting their own company or by operating alone in the business world, especially when it involves taking risks.” Despite this definition, words can never capture the complex roles an entrepreneur plays. Yet while entrepreneurs may vary across cultures, countries and economies, they also share some common characteristics that transcend culture and nationality.

In our deliberations, we concluded that entrepreneurs possess some qualities that makes them distinct from non-entrepreneurs. The first is the ability to be creative and innovative. The second is the ability to take calculated risks. Thirdly, entrepreneurs have the ability to identify, analyse and seize economic and business opportunities.

We would like to stress however, that it is important for all countries to encourage the qualities of an ‘entrepreneurial spirit’ (creativity, innovation, risk-taking) even though this does not translate into creating entrepreneurs. An entrepreneurial spirit refers to the existence of the desire to take entrepreneurial action, which involves the identification and exploitation of previously unexploited opportunities. An ‘entrepreneurial spirit’ can be applied not only to business and economic activities, but to all sectors and activities within a society: education, research, culture, politics, the arts, sports and the mass media.

### **Entrepreneurs: Nature, Nurture and Circumstances**

In current business and academic circles, there are generally two main schools of thought with regards to the “origins” of an entrepreneur. On one hand, there are those that ascribe to the belief that entrepreneurs are born, while on the other hand, there are those that argue that entrepreneurial behavior can be developed through education. In addition, there is another emerging school of thought that asserts that special circumstances might serve to light the entrepreneurial spark in an individual. These schools of thought will be discussed below.

One’s ‘nature’ involves the particular characteristics (quantifiable or otherwise) that one is born with. Those who believe in the nature theory assert that some people are born with business acumen, risk-taking abilities, luck and other qualities that allow them to become very successful entrepreneurs. Ambassador Alfredo Yuchengco, founder of the Malayan Group of Insurance Companies in the Philippines, for example, believes that luck has been on his side since he was born. For him, even the fact that he developed his businesses at the right time was entirely fortuitous. Some even believe that if one is not born with ‘it’, he or she can never be a successful entrepreneur.

Nurture refers to how one is brought up, what kind of values society teaches, and that ability to develop entrepreneurs using different methods. Advocates of this school of thought believe that entrepreneurial qualities or behavior can be taught. Despite the emphasis on ‘education’, there is as yet no consensus as to what are the best teaching methods. Some believe that studying the biographies of entrepreneurs or analyzing their business decisions is useful in cultivating entrepreneurial abilities. Yet others claim that students should be given case studies to practice in order for them to develop their own entrepreneurial qualities. At tertiary level education, the faculties and schools of business administration are often perceived as the ‘training ground’ for the development of entrepreneurs.

Circumstance, on the other hand, “is often described as a crisis or a survival situation”. According to Professor Ferreria, (Asian Institute of Management), it is the circumstance that will “force out the entrepreneurial component”. Singapore’s Senior

Minister Lee Kuan Yew shares this belief and has articulated it very well with examples. In his address on February 5 2002, he said that he “believe(s) circumstances and culture decide how entrepreneurial a people or sub-group of them becomes. In Indonesia and Malaysia, the Chinese are by and large excluded from the bureaucracy and the armed forces. So the energetic and resourceful Chinese have become successful businessmen and entrepreneurs. In Singapore, many of those who were most likely to succeed have been inducted into politics, the bureaucracy and the army, navy and air force. Hence too few are in business on their own and even fewer are entrepreneurs”.

In our group discussions, there was no general consensus as to which factor is the most dominant in the “creation” of an entrepreneur. Perhaps it is not simply a particular factor but the interplay of these three ‘variables’ (nature, nurture and circumstance) that shapes an entrepreneur. Regardless, it is not within the scope of this paper to bring a definitive end to this debate. Rather, this group believes that, by improving certain conditions with regards to these three factors, this will result in the development of an entrepreneurial *spirit* within a country that will necessarily result in an increase of entrepreneurial activity at every level of society. Since nature cannot be changed or altered, nurture and some aspects of circumstance are variables that we were able to give some levels of actionable recommendations.

### **III Issues and Challenges:**

#### A. Cultivating an Entrepreneurial Spirit and Entrepreneurs through Education

Education underscores the issue of the ‘nurturing’ theory on entrepreneurship. The current education system in most Asian countries is rather insufficient and inefficient. Generally, most public-education systems in Asian countries follow a ‘Confusianistic’ system whereby students are rewarded for obeying set rules and guidelines to the letter. These regimented forms of education tend to emphasise the memorisation of facts and figures. Although there may be courses that require the application of analytical and problem solving skills, the system might still require students memorising specific

methods to solve specific problems. These classes serve only to frame students' minds such that they cannot think out of the book nor apply the theory they have studied for use in daily life. In short, current education systems in Asian countries do not encourage pupils to think 'out of the box'.

Similarly, teaching practices in Asia are shaped by the objective of the education system. Teachers tend to grade students on how well they memorise and give answers from the textbook. For example, in Thailand, exams are mostly multiple choice, which may eliminate chances for students to think beyond the provided choices.

In contrast, the education systems in Western countries are based on the Socratic model, which is fundamentally different from the Asian model. Though similar subjects may be taught in both systems, the Western system encourages and gives students the opportunity to develop their own ideas. For example, exams in history and literature classes might require students to analyse situations and their impact. Some might ask students to share their opinions on situations and propose ideas on how such situations could have been improved. There is no fixed way of answering such questions, thus grading is judged on analysis and logical analysis. Creativity is always welcomed as long as it is reasonably logical.

To make the distinction between these two models of education more concrete, one might consider the following example which describes the typical Asian kindergarten class and its emphasis on conformity. For art, a teacher might draw a cat on the blackboard and ask her students to draw a cat. What usually happens is that most students will try their best to imitate the drawing on the board since the grade is based on how similar a student's drawing is when compared to the one on the blackboard.

In contrast, for most western developed countries, teachers would probably receive a wide variety of drawings from their students. The students' grades will not be based on how close the drawing is to the original, but on the intention and idea behind each student. The Asian model, by encouraging strict conformity to prescribed "ideals",

kills off fresh ideas and creativity in children. Ironically, it is at the early stage of life where creativity is spontaneous and best developed.

### Education: Recommendations

#### 1. More freedom for student initiated activities

There is a greater need for students to be pro-active with regard to decision-making in schools. For example, the education system in many countries encourages schools to allow students to initiate school activities, events, and festivals. Schools should allow the student council to have more say in the decision-making processes of school policies and regulations. These student initiatives will allow students to become more self-reliant and responsible.

#### 2. Changing curriculum & pedagogical methods

This report earlier identified creativity, innovation, and analytical skills as fundamental and important factors for cultivating an entrepreneurial spirit. Governments should encourage periodic reviews of the school curriculum to inculcate subjects and teaching methods that will experience creativity and innovation in students. In order to achieve this, the authorities could consider replacing multiple-choice exams with open-book exams, stimulating students' interaction in discussions, and engaging them in fieldwork to broaden their perspectives and develop their analytical and creative skills. Students must do project type exercises rather than answer set essay questions.

#### 3. Business incubators in universities

Universities should support the establishment of centres to facilitate the exchange of business ideas. Such centers could facilitate interaction and communication, which are two powerful tools to enhance creativity and innovation. Beyond that, the centres could provide assistance and opportunities for those who intend to transform ideas into reality. They could also serve as information resource centres. In addition, these centres could assist students in mobilising talent resources quickly. Put simply, these incubators would serve as one-stop business start-up centres. They would allow students to identify

opportunities, seize them and turn them into business. The users of business start-up centres of different universities could further communicate and interact among themselves, creating a larger pool of potential entrepreneurs.

#### 4. Universities should encourage entrepreneurship

Universities should provide the necessary funds to encourage entrepreneurial activity, be it in teaching or in research. The university's mission statement should reflect its desire to support and nurture entrepreneurial behavior to set the tone for the rest of its faculty and students. For example, faculty members should be encouraged to register patents and market new products as means of supplementing their income. The trickle-down effect of this development might lead to an increase in the level of entrepreneurial interests in students.

### B. Cultural Issues: Changing Values/Traditions

The presence of outdated mindsets and antiquated values have also hindered the development of an entrepreneurial culture within Pacific Asia. Although it might seem rather simplistic to attempt to derive a set of values that is universal amongst the Asian countries, there are broad commonalities within these societies that allow for some generalisations to be made. An example of this is the preference amongst traditional Asian parents to see their children pursue careers in government or large corporations. The fact is that many Asian youths show an aversion to risk-taking careers and would gladly choose secure professions over the life of an entrepreneur. Other values that have to be altered include the relatively low status of entrepreneurs in most Asian countries. Another prevalent social norm that must be changed is the societal perception of not accepting failure. For example, failing in business is seen as a source of shame to the entrepreneur.

What values then should be recognised and encouraged in order to foster a more entrepreneurial culture? Though there could be an infinite number of qualities, we believe that the values of self-reliance, drive, self-discipline, adaptiveness, vision and moral

conviction are important for developing entrepreneurs. In several studies, some of these values have been identified by prominent entrepreneurs as having contributed to their success.

### Culture: Recommendations

Although the challenge of changing mindsets seems excruciatingly difficult, they are by no means insurmountable. Whether by choice or necessity, Asian societies are taking tough and concerted actions to slaughter their once sacred cows. An example of this is the slow abolition of the *nenko-joretsu* (seniority based system) in Japanese companies and even universities.

Asian youths should be encouraged to be entrepreneurs and since the sharpest spur to the enterprise of the young is the example of the enterprise of others, we recommend that current entrepreneurs be the advocates and role models of the entrepreneurial spirit amongst youths. Meet-the-entrepreneurs sessions could be conducted in the community, and include talks and dialogues where entrepreneurs share their success stories. This will expose both youths and grown-ups to the entrepreneurial world. Besides increasing their level of awareness about entrepreneurs and entrepreneurial activities, youths could be inspired and motivated to start their own businesses. The older generation might also change their opinions on entrepreneurs and see them in a more positive light. This would eventually help to remove the low status perception of entrepreneurs in most Asian countries. Furthermore, exposure and awareness to previous failed business experiences of entrepreneurs might encourage society to change its perception of failure.

The success of such a measure, however, would depend on the contribution of the business community as well as the government, both of whom should share the burden of seeing such an initiative through. For their part, entrepreneurs must be willing to spend time to share their experiences. Another suggestion would be to encourage the chambers



of commerce within individual countries to take up an active role in co-coordinating talks, seminars and campaigns on “developing entrepreneurship”.

### C. Government Initiatives and Institutions

When entrepreneurs decide to start their business ventures, they are likely to face tremendous difficulties obtaining funds to support their ventures. Often, many financial institutions practice banking systems that are not entrepreneur-friendly. These conservative financial institutions such as banks only provide secured loans if the borrower provides guarantees such as collateral (i.e. assets, properties) or has a proven business track record. Many aspiring entrepreneurs may not have the necessary collateral and may lack the pre-requisite business experience. The enthusiasm and creativity of such potential entrepreneurs could be stifled because of a financial system that is not entrepreneurial-friendly. In fact, most successful entrepreneurs’ initial capital generally comes from personal sources (family and friends). We need to develop a relationship between venture capitalists and promising entrepreneurs.

Moreover, high interest rates and short repayment periods for loans, among others, may make it difficult for entrepreneurs to sustain their ventures. There may be enormous pressures to gain profit in a relatively short period of time; something which is often not common in entrepreneurial start-up ventures. Hence, many financial institutions do not support entrepreneurship and prefer more stable and secure investments.

In theory, government subsidies would provide the people with an opportunity to be entrepreneurial. This serves as an alternative for people who cannot provide collateral as security for obtaining bank loans. However, in practice, providing government subsidies without the need to repay may not return the desired success rate. Those who receive the funds may be riding on the wave of entrepreneurship, claiming to be entrepreneurial but, in fact, lacking any new ideas and sound business practices.

Many successful entrepreneurs in Asian countries have largely proven their entrepreneurial capabilities in their own countries. Apart from Japanese and some Korean and Taiwanese companies, only a few have progressed to the regional and international level. Sim Wong Hoo, CEO of Creative Technologies, is a good example of a local entrepreneur who has made it to the international playing field. While there are businesses in Asia that have a regional presence, they are sadly mostly Western-owned. What went wrong?

Strict rules and regulations and the presence of red tape in the business environment discourage the setting up of new businesses. The high fees required to incorporate new businesses add further to the financial constraints of entrepreneurs with no proven business record.

Generally, wide-spread corruption in government and the bureaucracy also discourages entrepreneurship. The entrepreneur may face this corruption ‘culture’ all throughout his or her career – from the filling of business papers to the liquidation or sale of the company. Some entrepreneurs who could not handle the corrupt system might have quit, which means the loss of jobs that the business would have created. Corruption leads to high costs for goods because of the bribes companies have to pay for their businesses to survive. A distorted market economy is what takes place. Capitalisation, as well as prices, becomes so much higher than they should normally be. Higher capitalisation discourages entrepreneurs. High prices make consumers poorer. It results in a lose-lose situation.

A clear issue of concern is that there is no political-economic organization that is purely Asian. Although we have an Association of Southeast Asian Nations (ASEAN), it does not include Japan and China, which are key regional and global economic players. There is the Asia-Pacific Economic Caucus, but that does not include all other members of ASEAN. However, whatever the regional organizations, there is a need for greater emphasis on allowing businesses and businessmen to talk to one another, to explore new ventures and enterprises at a regional level.

## Government: Recommendations

Asia is a large market that provides the resources and the launch pad for successful entrepreneurs to succeed globally. Such resources must be leveraged upon to enhance and sustain Asian economic growth.

Indigenous entrepreneurs should be expanding their business horizons by transcending their national borders. We recommend that local entrepreneurs from Asian countries should meet in regional business meetings coordinated by chambers of commerce from various Asian countries. In doing so, this would increase the exchange of information and facilitate networking amongst local entrepreneurs of Asian countries to foster greater understanding and cooperation thus building trust amongst them.

It is highly desirable to create an environment in the business world that welcomes new players. Therefore, we strongly recommend that governments lower the entry barriers for new business players, especially budding entrepreneurs. For example, the tax system should be revised to relieve the financial burdens on budding entrepreneurs by providing tax relief and lower interest on loans.

Subsidies given to budding entrepreneurs as in development of small and medium enterprises (SMEs) are long-term investments by governments. If the SMEs become successful businesses, they will be able to contribute to the economy by paying taxes. We recommend a more direct form of investment. The subsidies would be converted as investments by governments in the manner of venture capitalists. The entrepreneurs must produce proper business plans and convince the government to invest. While the government should not be dictating the pace and development of any business venture they invest in, they should follow its development closely. If the venture failed, the entrepreneur would be required to do a post-mortem. If, on the other hand, it succeeded, the government would be able to take a share in the profit. This would allow larger government funding and a greater sustainability of funds.

Governments should make it easier for entrepreneurs to do business in fair competition with each other. This would be possible through simpler rules, creating a more efficient bureaucracy that is also entrepreneurial-friendly, and thereby lowering the cost of doing business.

#### **IV Closing Arguments**

Throughout our three-day discussion, we found that there were many issues and challenges that budding entrepreneurs have to face, and a lot of changes in education and government that are required to create an entrepreneurial spirit and entrepreneurs for most Asian countries. The longer we discussed the theme, the more problems cropped up. A number of problems we brought up were compounded by specific and unique problems facing individual countries. However we are satisfied that we were able to recognise those problems that we believe are crucial and pressing in cultivating entrepreneurs. Despite cultural and national differences, our suggestions are based on recognised commonalities.

Ultimately we believe that whether or not our recommendations are implemented is secondary to the fact that these issues have now been raised and this might increase awareness of the existing problems and lift the level of dialogue within our individual countries or even within the region. We hope that the fresh ideas and new perspectives raised will not simply help achieve our initial goal of cultivating an entrepreneurial spirit, but, in time, will set in motion changes that will re-shape and re-vitalize our economies on a path to sustainable development. We all firmly believe that there is room for tremendous changes and improvements that could enhance the entrepreneurial spirit and encourage entrepreneurs in Asian countries.