BEYOND GROWTH: TOWARDS CONVERGENCE OF ENTREPRENEUR'S FORMULA WITH BANKER'S

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1. Introduction

The 3-decade old war had devoured country's economy together with spirit of the nation and everyone embraced its end as a beginning of an era, in which, the buzz words were "Peace", "Confidence", "Growth", "Stability" and "Prosperity" in terms of economic, political, social and individual-specific perspectives. This concept was well articulated in government's one of the most significant initiatives, the "Five-Hub Strategy", where the intention was to achieve growth by transforming Sri Lanka into five hubs in the region namely, Maritime, Aviation, Commercial, Energy and Knowledge hubs. Envisioning such a dream state was fascinating but implementation of strategies to reach the expected destination had many impediments. "Peace" was the immediate outcome of cessation of hostilities and "Confidence" of investors both local and foreign, usually follows that as evident in many developed economies. Success stories of recently developed countries imply that achievement of "Stability" and "Prosperity" greatly hinges on success in achieving "Growth" in the economy. Growth of an economy needs meticulous strategies characterised by professional inputs and foresight due to rapid and unpredictable changes in other variables in the formula. Plans of yesterday become obsolete today and strategies of today would be less pragmatic tomorrow due to this uncertainty. Hence many started believing in the traditional quotation "to hit the moon, aim the sun!" Accordingly, a wise strategist had to expand his thinking horizon "Beyond Growth". The countries which succeeded in going "Beyond Growth" had their own strategies to face a multitude of challenges and obstacles. They adopted distinctive success formulae to deal with each such challenge. Sri Lanka is no exception to this situation and therefore has to be equipped with own formulae to face it. These challenges are many in numbers and there is no unique course of action to meet all. Hence the author wishes to single out one predominant challenge faced by many countries, which is named the "Middle Income Trap" in this paper. Various groups of people act collectively in dealing with Middle Income Trap. Author once again narrows down his scope by focussing on formula adopted by Entrepreneurs in facing this challenge. Author also wishes to give insight on how synergy is created if bankers agree to play a complementary role.

2. Economic Outlook in 2012

The Sri Lankan economy displayed signs of stability amid several global and domestic challenges. The growth rate showed an increase from 3.5% in 2009 and remained at a healthy rate of 6.4% in 2012, whereas the advanced economies experienced a collective contraction from 1.6% in 2011 to 1.3% in 2012, mainly due to continuous recession in Euro Zone and sluggish recovery of US economy. The emerging economies like China and India recorded a slight dip but remained at 7.8% and 4.5% respectively in 2012. However, the economies in the Middle East and North Africa marked an impressive growth of 5.2% in 2012, from 3.5% in 2011. Apart from that, Sri Lanka displayed few more impressive indicators. The inflation was maintained at single digit for a fourth consecutive year. The trade deficit contracted to 15.8% of GDP in 2012 from 16.4% in 2011. The Balance of Payment recorded a surplus of US$ 151 million in 2012 compared to a deficit of US$ 1,061 million in 2011. The unemployment rate, which remained below 5% since 2010, reached a historic low of 4% in 2012 (Central Bank of Sri Lanka).

However, the impressive past has now been confronted with many threats such as upward pressure on exchange rates, rising cost of energy, deteriorating political stability in Middle East and less favourable economic environment in countries which extended technical and financial assistance on concessionary terms hitherto. Accordingly the policy makers and other prime movers of the economy have felt the necessity of meticulous review of formulae once drawn out to look "Beyond Growth".

3. Middle Income Trap

A primary dream of all developing or under-developed countries is to achieve "middle-income" status in terms of Per Capita Income (PCI). As per World Bank's classifications, countries with PCI below US$ 1,035 fall into "Low Income" group. When it falls between US$ 1,036 and US$ 4,085 the country receives "Lower Middle Income" status. The Upper Middle Income group has PCI between US$ 4,086 and US$ 12,615. Above that threshold the countries fall into "High Income" category. In 2012, Sri Lanka recorded a PCI of US$ 2,920 making its dream of reaching "Upper Middle Income" level in 2016 more realistic.

If one envisions a status "Beyond Growth", essentially he must endeavour to move up in the "Middle Income" band and jump into the "High-Income" club. For the past few decades, rapid growth has allowed a significant number of countries to achieve middle-income status. However, very few have made the additional leap needed to become high-income economies. Rather, many have gotten stuck in what has been called a "Middle Income Trap", characterised by a sharp deceleration in growth. Most countries in Latin America and the Middle East for instance reached middle-income status during the 1960s and 1970s, and have remained there ever since (Agéno & Canuto,2012).

In Asia, Malaysia and Thailand provide good examples of the growth slowdown that characterises a Middle Income Trap. Despite the financial crisis of 1997-98, they ended the century with productivity levels that stood significantly closer to those recorded in advanced countries. However, the pattern of labour-intensive production and exports in these countries has remained broadly unchanged for the past two decades. At the same time, they have faced growing competition from low-cost producers, first China and India, and more recently Vietnam and Cambodia. Growth has slowed significantly as a result. Moving up the value chain and resuming rapid growth by breaking into fast-growing markets for knowledge and innovation-based products and services has remained elusive–not only for Malaysia and Thailand but also for a number of other middle-income countries (UNIDO, 2009, cited by Agéno & Canuto,2012).

Low-cost labour and transfer of foreign technology usually stand as the main contributors that account for high growth during an initial phase of rapid development in a developing country. Agéno & Canuto further elaborates that these advantages disappear when middle and upper-middle-income levels are reached, thereby requiring new sources of growth to maintain sustained increases in per capita income. Low-income countries could successfully compete in international markets by producing labour-intensive, low-cost products using technologies imported from abroad during initial stages. These countries could record productivity gains initially through a reallocation of labour from low-productivity agriculture to high-productivity manufacturing. However, once these countries reach middle-income levels, the pool of underemployed rural workers drains and wages begin to rise, thereby eroding competitiveness. Productivity growth from sectoral reallocation and technology catch-up are eventually exhausted, while rising wages make labour-intensive exports less competitive on world markets (Agéno & Canuto, 2012).

Accordingly, author considers the "Middle Income Trap" as a major impediment when going "Beyond Growth" and attempts to explore the suggestions of experts to avoid this situation. Among those experts, the author has considered not only the scholars viz., academics, policy makers, economists, etc but also the Entrepreneurs, the real practitioners of inherent and learned traits in the economy. Theoretical and research-based approach of scholars and empirically verifiable formulae of entrepreneurs would be the main focus in this paper.

4 Avoiding Middle Income Trap

To avoid falling into a middle-income trap, countries ought to address its root structural cause early on and find new ways to boost productivity. The main sources of higher productivity will be through shifting to high-value services and promotion of home-grown innovation, rather than continuing to rely on imitation of foreign technology. In other words, the key issue that needs to be addressed is how to switch from "imitation" activities to a broad-based "innovation" strategy, (Agéno & Canuto, 2012).

This is a multi-faceted task where many players' collective effort is needed. Fundamentally, the presence of a breeding ground for innovators is essential. Together with that there should be people with innovative thinking who can spearhead activities pertaining to new product development, process re-engineering and new market development. This is typically the role of an Entrepreneur. Hence it is worthwhile focusing attention on formulae to be adopted by Entrepreneurs. In addition to that, the state's support has to be in place through physical and administrative infrastructure backed by a firm policy framework conducive to implementation of innovative strategies. The policies on training and education are of great importance since more and more people have to be pushed towards innovative activities by imparting required knowledge and transfer of relevant skills. People, when equipped with right competencies, develop a passion to continue innovative undertakings themselves even amid absence of other resources. These prerequisites have to be coupled with the service of a strong financial intermediary, which means the banks. The banker's ability to extend credit and other forms of financial backing is essential to prevent interruptions in the innovative process till commercially viable results are generated. All players' prolonged cohesiveness and high level of endurance is vital since the time needed to switch from "imitation" to "innovation" as described above is not precisely known.

5. Who are Entrepreneurs?

The definition of "the Entrepreneur" and the conception of the entrepreneurial role in a social, economic or corporate context have remained slippery and elusive. Economists have not reached a consensus on these points and thus have not provided a common understanding on which other fields can draw (Sandberg, 1986). The term "Entrepreneur" is derived from the French verb "Entreprendre" which means "to undertake" (Cunningham & Lischeron, 1991). Those who undertook the risk of starting and running a new enterprise were named Entrepreneurs. Apart from that in early 16th century, the French military leaders too were called Entrepreneurs believably due to their innovative approaches and the risks associated with the war-related expeditions they undertook (Chantimath 2006). Adam Smith saw the Entrepreneur as a risk bearer and a source of capital. Another economist Frank Knight described the Entrepreneur as a manager of uncertainty. If perfect knowledge prevailed, as in models of perfect competition, uncertainty would not exist. Because of the inexactness of the organizations and imperfections of the markets, one has to decide what to do and how to do. The Entrepreneur earns profit by undertaking this responsibility creating an economic change in his surroundings (Sandberg, 1986).

Joseph Schumpeter identified Entrepreneur as an innovator. According to his conceptualisation, the entrepreneur starts acting in an environment having a general equilibrium, where all markets are perfectly competitive with known customer-preferences and given producer-technologies. The Entrepreneur, as explained by Schumpeter, breaks this equilibrium by introducing new combinations of the means of production and capital. This situation brings profits to Entrepreneur but after some time the environment becomes "normal" where many new personalities would follow suit, share slices of the same pie, resulting equilibrium once again. This is where the Entrepreneur gets activated again, shatters the newly formed equilibrium and creates a new environment which brings profits to him through a different set of variables. Schumpeter further elaborated that such a process would continue one after another episode owing to the Entrepreneur's inner state of mind which energizes him to savour the joy of creating and fulfilling something by harnessing his own ingenuity (Sandberg, 1986). "Entrepreneurship" was further defined as the discovery, evolution and exploitation of future goods and services by creating or identification of new ends and means previously undetected or unutilized by market participants (Eckhardt and Shane, 2003; Cited by Brandstatter, 2011).

In a traditional context, those who form and operate business enterprises were named Entrepreneurs. They come from various origins, backgrounds and population groups. Some are inherited with already established family businesses and wealth. Rest may count long association with one or more other Entrepreneurs prior to commencement of own enterprises. However, owing to certain prominent characteristics, a clear demarcation could be made between Entrepreneurs and "Ordinary Businessmen". The primary intention of the latter is simply to carry out commercial transactions to survive over a shorter business life cycle without making an impact on the socio-economic environment, perhaps for net monetary gains, whereas the former is driven by multiple objectives which need not always be monetary (De Costa, 2012).

6. Success Formula of Entrepreneurs

Many scholars, as described in the previous Para, have identified Entrepreneur as a person who can create something new, worthwhile and long lasting for the benefit of him and the outside world irrespective of numerous negative factors which pull an ordinary person backwards. Hence his potential to nullify the stresses of Middle Income Trap need to be well-harnessed if the vision is to accelerate growth.

Professor John L Thompson of Huddersfield University Business School, UK, has compiled some key research findings on Entrepreneurial characteristics, which can be treated as the elements of the success formula that Entrepreneurs follow. Those are:

a. Enterprising people translate "what is possible" into reality. They transform a simple, ill-defined idea into something which works. They have their own ways of dealing with opportunities, setbacks and uncertainties to "creatively create" new products, new services, new organisations and new ways of satisfying customers or doing business.

b. Entrepreneurship is about spotting and exploiting opportunities. They are able to synthesise the available information and clarify patterns which escape others. They are comfortable with ambiguity and they can bring clarity by piecing together previously unrelated messages and signals. Again with analysis and hindsight, it often appears that what they do is unconventional but logical.

c. Entrepreneurs find the resources required to exploit opportunities. Successful entrepreneurship is rarely a flash of inspiration or luck; rather it is the conscientious application of discipline to exploit resources which are already to hand or which can somehow be found. The non-existence or ready availability of the necessary resources will not deter the committed entrepreneur who will exploit contacts and sources "begging, stealing and borrowing" when necessary.

d. Entrepreneurs add value. The resources are acquired and utilised to create products and services which satisfy customers and markets. Value is added through a transformation process. Entrepreneurs sometimes instinctively understand market needs and satisfy them. There is often a strong element of demand-pull, but true visionaries have to sell their new ideas and create demand.

e. Entrepreneurs are good networkers. Constrained by resource limitations especially finance, entrepreneurs use creativity, social networking and bargaining to obtain favours, deals and action.

f. Entrepreneurs create intellectual, financial and artistic capital. Resource acquisition, adding value and networking constitute the entrepreneur's intellectual capital, which is used to create the other two capitals. Financial capital is wealth creation. Artistic capital simply brightens or enriches people's lives; there is an element of feel-good factor involved. People enjoy and gain a variety of benefits from an imaginative urban landscape and architecture that entrepreneurs create.

g. Entrepreneurs manage risk. Whilst they may well take risks that others avoid, and ensure they have some understanding or control over the downside.

h. Entrepreneurs are motivated to succeed; they possess determination and self-belief. They refuse to be beaten and persevere when "the going gets tough".

i. Entrepreneurship involves creativity and innovation. They imply learning and change which they can manifest in a whole variety of different ways.

With respect to those facts, the author conceptualised that entrepreneurs follow a 7-step model, as shown in Figure-1, which encompasses the success formula to go beyond expected level of growth avoiding Middle Income Trap particularly.

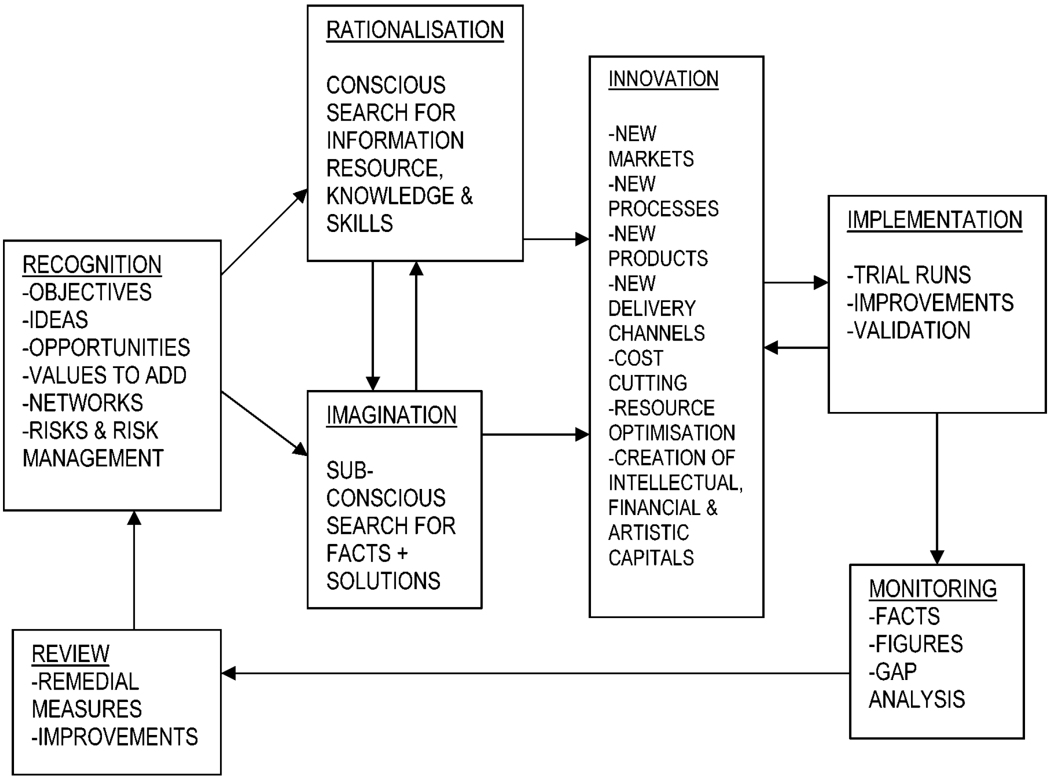
Step-1 – RECOGNITION

In this stage, the Entrepreneur recognizes his objectives which include a firm commitment to go beyond expected level of growth. He undergoes a wave of idea generating exercises scanning the environment for opportunities which others fail to comprehend so that productivity improvements can be done through new combinations of abilities and resources. He explores where and how to add value and get optimum benefit of networks in securing resources and markets. In this stage he identifies associated risks but never become obsessed and instead quickly sets ways of managing the risks.

Step-2 – RATIONALISATION

This is a stage where the Entrepreneur thinks rationally and reflects on his knowledge and skills. He questions the status quo and searches for information and means of bridging gaps in knowledge and abilities.

Figure 1: 7-Step Formula of the Entrepreneur (Conceptualised by Author)



Step-3 – IMAGINATION

This too is a stage of questioning the status quo but more weightage is given to Emotional Quotient (EQ) and Spiritual Quotient (SQ) rather than to Intelligent Quotient (IQ) of the Entrepreneur. His inherent ability of conditioning subconscious mind pays dividend by generating solutions to related issues.

Step-4 – INNOVATION

Here the reversible process begins where the outcome of rationalisation is mingled with imagination to find new products, markets, processes and delivery channels. Means of resource optimisation and cost reductions would be explored in order to avoid Middle Income Trap and other negative forces. Entrepreneur finally aims at creation of Intellectual, Financial and Artistic capitals to support a series of continuous implementations.

Step-5 – IMPLEMENTATION

In this stage the Entrepreneur puts his innovations to acid tests and identifies necessary improvements. Once again, in a reversible process, previous steps are referred to.

Step-6 – MONITORING

This is more inclined to management rather than entrepreneurship. After the implementation, continuous monitoring of results through facts and observations is followed. The entrepreneur in this stage heavily depends on his information systems in order to identify deficiencies.

Step-7 – REVIEW

Entrepreneur is not a static entity. Neither the process required to go "Beyond Growth" is static. Once the deficiencies identified in the previous stage were remedied, he has to ensure the repetition of the cycle at a higher level of precision and magnitude before the situation becomes vulnerable to imitation and competition.

7. Banker's Approach

The Banker is an indispensable cog in the economic wheel of the country which transmits power to the national engine to go "Beyond Growth". Over a long period in the history, the banking industry has gone through many upheavals in social, political and economic environments. The banker has experienced the effectiveness of many success formulae in meeting relevant challenges. His involvement as a financial intermediary is vital in meeting capital requirements, fair distribution and regulation of funds in creation of wealth. Unless the banker performs this pivotal role, facilitating investors and borrowers with an attractive product portfolio, the country would be pushed towards a vicious cycle of poverty. Hence the banker too has to deliver his contribution timely and effectively in the journey "Beyond Growth". Accordingly, the banker follows a 6-step model, as shown in Figure-2.

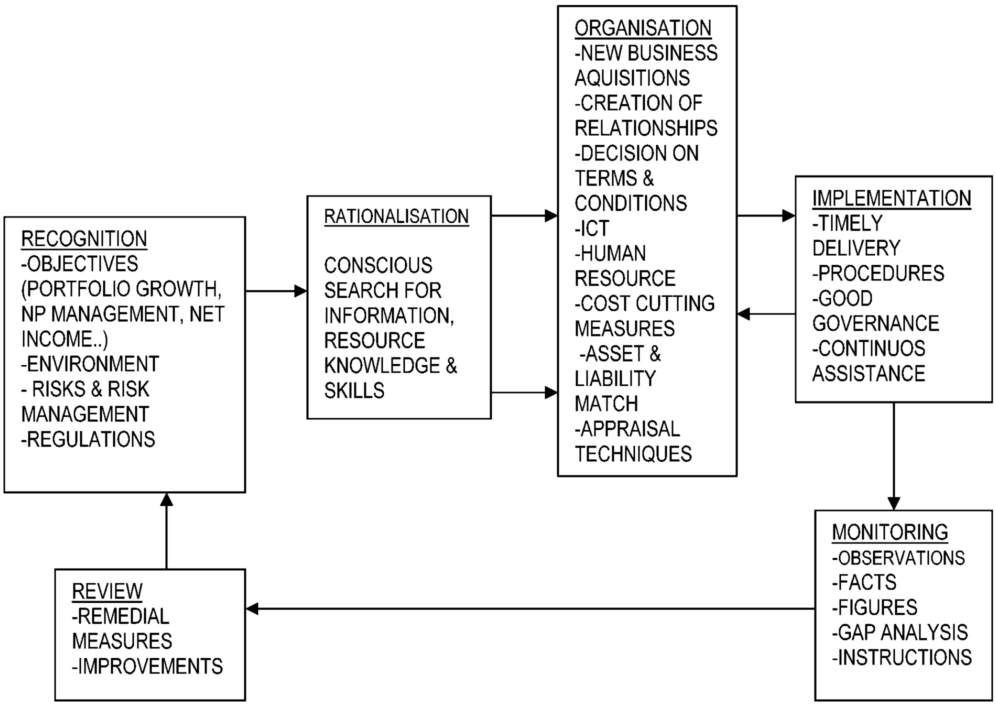
Step-1 – RECOGNITION

Like Entrepreneurs, they too start with identification of objectives mainly the growth of national economy by making a healthy contribution as a financial intermediary. He has to recognise the effect of Middle Income Trap to the banking industry and action to be taken on his part within the organisational objectives viz., asset and liability portfolio growths, NP management, Increase of net income etc. Constantly he has to be vigilant on changes in environment, regulations and measures to mitigate various types of risks.

Step-2 – RATIONALISATION

At this stage, the banker has to understand that the situation does not diminish automatically. He has to consciously compile relevant information, assess the resource requirement along with knowledge to acquire and skills to develop in order to work towards the new challenges.

Figure 2: 6-Step Formula of the Banker (Conceptualised by Author)



Step-3 – ORGANISATION

Unlike the Entrepreneur, the banker's freedom to practice innovative strategies is restrained by regulations. Hence he has to organise things to acquire business and create relationships within the organisational norms. Decisions on terms and conditions, optimum balance between assets and liabilities, human resource and ICT are mostly predetermined. However, use of relevant appraisal techniques and cost reduction methods are within his discretions.

Step-4 – IMPLEMENTATION

During this stage, the banker displays strict adherence to procedures and good governance. For example, when a project proposal is approved, disbursement of funds has to be made in stages as per agreed schedules without leaving room for siphoning out. Banker should maintain relationship and remain as the business associate of the customer so that adverse variances can be dealt with before becoming critical.

Step-5 – MONITORING

Similar to the behaviour of Entrepreneur at this stage, the banker too gets involved in continuous monitoring of results through facts and observations. Dependency on information is more, because many customers come across difficulties in the early stage of the learning curve. Any critical issues, which may result in jeopardising the plans for achievement of final objectives, have to be dealt with.

Step-6 – REVIEW

Like the model for Entrepreneur, the review is essential for banker too. If other parameters of the formula changes unexpectedly, which may be the case in most of the times, the variables, facts, figures and strategies will be revisited.

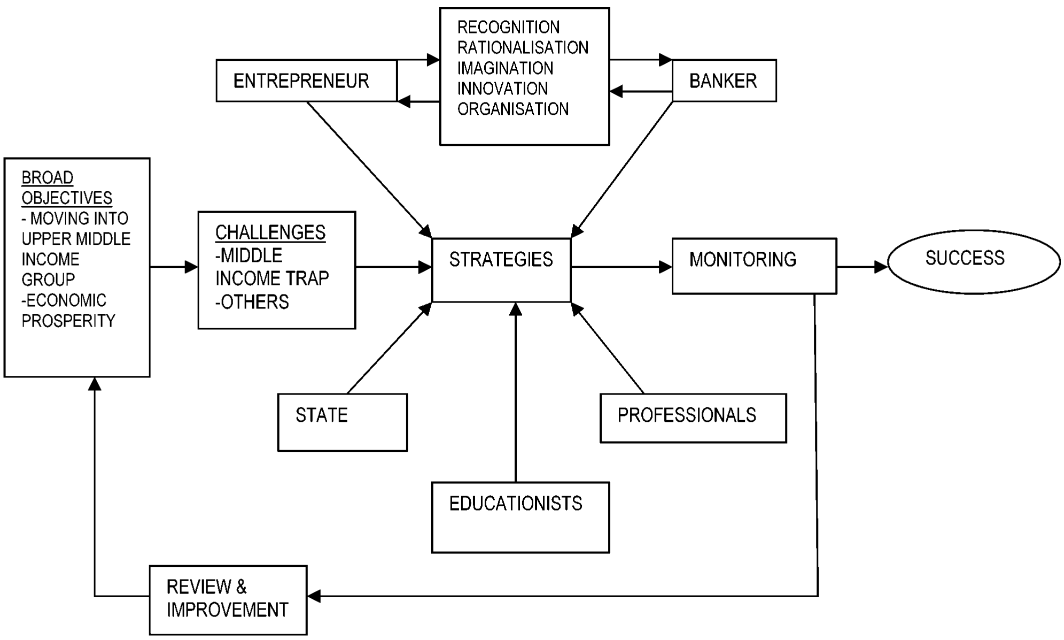
8. Convergence of two Approaches

As stressed earlier, achievement of national objectives need collaborative action of many players. Individual strategies may work in isolation but remain less effective than the converged approaches of Entrepreneur and banker which obviously produce synergy. The integrated approach is shown in Figure 3 where players other than the banker and Entrepreneur too appear. However, the author's focus would only be on Entrepreneur and banker as stated earlier.

Shift of paradigms is needed in the common steps of the two isolated models of Entrepreneur's and banker's, namely "Recognition" and "Rationalisation" when converged together.

The inter-bank competition may increase the inflow of sub-prime borrowers. These cases obviously have a higher probability of becoming problematic in future. Most of these sub-prime borrowers fall into the group of "Ordinary Businessmen" and the others possess majority of characteristics pertaining to "Entrepreneurs". As per findings of many research studies, real Entrepreneurs are capable of tiding over crisis situations by creating equilibrium in unsteady environments. Hence the banker should be able to "Recognise" the "Non-entrepreneurs". The characteristics stated in Para 6 together with definitions highlighted in Para 5 would enlighten the banker on this aspect. Furthermore, the proposals forwarded by Entrepreneurs are characteristically more inclined towards new ideas, products, markets and processes over which the banker possesses scant knowledge. Under the traditional way of thinking the banker may lack indicators to ascertain the viability of such proposals. It is essential that the banker move away from this paradigm and develop abilities to "Rationalise" the hidden viability associated with such proposals, which otherwise would be counter productive to Entrepreneur's effort in helping the country to avoid Middle Income Trap.

Figure 3: Entrepreneur's Formula Converges with Banker's
***(Conceptualised by Author)*MONITORING**



9. Conclusion

The country is yet to enjoy the full benefit of peace endowed after the 3-decade old war ended, owing to many internal and external factors. Maintaining the growth at a healthy rate, reduction of unemployment, keeping the rate of inflation at bay, maintaining exchange and interest rates at acceptable levels, increasing Per Capita Income in order to move into "Upper Middle Income" group are few of the broad objectives to be achieved at national level. Since other parts of the world too strive to achieve similar goals, the necessity has come to accelerate our effort and to plan beyond Growth objective. Among many obstacles come across when aiming "Beyond Growth", author had thrown light on "Middle Income Trap", which is a major impediment to many countries which still stagnate without jumping into "Upper Income" category. There are success formulae forwarded by many groups of professionals. The author through this paper attempts to discuss what Entrepreneurs could do in this regard. Their formula lacks effectiveness when tried to implement in isolation, without the active support of financial intermediaries, in particularly the bankers. Bankers do have their own success formulae which are greatly restrained by traditional thinking and applicable regulations within which they operate. Therefore author further wishes to provide an insight to bankers on how to generate synergy with Entrepreneurs by amalgamating strategies and success formulae of both groups within the above regulatory framework.

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