

**ROLE OF HIGHER EDUCATION INSTITUTIONS IN SOCIETY:
CHALLENGES, TENDENCIES AND PERSPECTIVES**

Academic papers

Nr. 1 (10)

CHANGE IN BUSINESS DEVELOPMENT

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Abstract

Change in the economic system is the opposite of static economy. The economy is characterized by being in a static position before a change in the business environment is taking place. When changes take place in the non-social data, non-economic social data or in consumers' preferences, the static economy will inevitably change accordingly. Anyhow, this is only what we understand as changes by small steps, and is a natural fluctuation in the static economy. Economic development occurs when radical, unpredicted and discontinuous shifts take place and alter the way of production. What is causing the spontaneous change that leads to new equilibrium in the economy?

Keywords: Changing business environment, political propaganda, horrible ideologies, religious lies, innovation, production function.

Introduction

The analyzed subject of this article is of great importance because the changing environment in business life causes the need for a deeper understanding of the process behind economic development. Explanatory factors behind change must be deeply rooted in the scientific truth the way science is created, built on independent science. Traditionally, a vast number of stakeholders present their own ideas, programs, politics and financing linked up to the current situation in the business environment. Over time, we have witnessed a long line of myths, both in academy, politics, finance sector, business life, religious systems and media, presenting a variety of programs, solutions and horrible ideologies in their strive to move forward. Science and society must turn away from that kind of power systems and trust only independent science as provider of the scientific truth in all matters. What causes radical changes in the economy and can government create economic changes, what is the value of the Schumpeterian analogy with the circulation of the blood in an animal organism, and what role does the individual entrepreneur play in the economic development? Can business protection cause economic development and is market protection a definite solution? The hypothesis can be formulated as a research question; what causes economic development?

Methods

The methods used in this article are concentrated on theoretical aspects in the history of the static and dynamic economics; analyzes of theoretical and empirical approaches to the phenomena of changing environment and economic development. The theory stretches over a time span of more than 300 years. Furthermore, the analysis is based on independent science. The conclusion is drawn solely from the presented theory and scientific arguments and represents a vision for further scientific research on the topic.

Changing Environment

Before a change in the business environment is taking place, the economy is characterized by being in a static position. Producers on the same markets are producing the same products with the same raw materials, the same methods, the same human capital to the same production prices; all input factors are more or less the same. They sell the same products to the same costumers to the same market selling prices on the same markets. Stable equilibrium is an agreeable position for man and noting will intrude on his mind to shift the position if it was not for the circumstances. This is adequately expressed by Thorstein Veblen: "The hedonistic conception of man is that of a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area but leave him intact...He is an isolated, definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-poised in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down on him, whereupon he follows he line of the resultant" (Veblen, 1898, p. 389). Man usually does not want to produce, to put all the strength, risks and hazard into the production function; he rather wants to consume and enjoy life. Economic life, therefor can be described from the standpoint of the economic system's tendency towards an equilibrium position where the same things happen year after year in a predestined pattern of behavior both by producers and consumers. The driving force in the static economy is the human desire; everything that is produced is consumed, and this closed circular flow can perfectly well be explained by economic theory. Still there is

changes taking place in the economic life from within. Marginal changes, brought into the circular flow of material and techniques can be described as an adaptation to existing data as a continuous principle. This change, described as change by small steps, is latent in the economic life and quickly brings the economy to a new equilibrium. Changes by small steps are only processes of adaptation to natural data and do not represent any qualitatively new phenomena. The static economy is perfectly operating based on the three classical input factors land, labor and capital and economic theory is equipped to the analyses of changes taking place within the natural data and based on the law of supply and demand. Schumpeter describes the static economy as “circular flow,” running on in channels essentially the same year after year – similar to the circulation of the blood in an animal organism. Now this circular flow and its channels do alter in time, and here we abandon the analogy with the circulation of the blood. For although the latter also changes in the course of the growth and decline of the organism, yet it only does so continuously, that is by steps which one can choose smaller than any assignable quantity, however small, and always within the same framework” (Schumpeter, 1934/2008, p 61). Changes might take place in the non-social data (the natural conditions), the non-economic social data (effects of war, changes in commercial, social, or economic policy) or consumers’ preferences, Schumpeter does not require any overhaul of existing economic tools for its explanation. The analogy with the circulation of the blood in an animal organism is very relevant and it describes in a perfect way the framework of natural data. It also lays the foundation of the deeper understanding of creative destruction (Schumpeter, 1942). The static economy cannot transform itself in a qualitatively new way from within; it only performs a repetitive activity where output might be less or more until an optimum is reached, and then full stagnation, like the decline of the organism. The classical input factors in the production function are restricted like the framework of the animal organism and their functionality does not provide what it takes to transform the economy through a quantitatively new phenomena. The blood circulation in an animal organism represents nature in all its faces, from sowing the seed, germination and growth, fully mature and harvest or wither and again the same next season. This circulation in the static economy is held up by the outputs of the input factors, respectively rent, wages and (capital-) profit. They have in common the fact that they weigh the price of the product. Especially wages is one of the strongest hindrances and obstacles of modernization, development and creativity in any business, organization, in culture and science and does not inspire, motivate or empower the laborer to innovate, be it the errand boy, the general or the professor or anyone else on a master’s, employer’s or government’s pay list. When changes take place in the non-social data, non-economic social data or in consumers’ preferences, the static economy will inevitably change accordingly. When supply fails, lack of input factors will make production suffer. Diminishing or abrupt drop in supply of raw materials, of labor or capital will cause disturbances in the linear production. Political failure, wars and religious suppression can cause disturbances in the supply chains, both on the demand and supply sides and in both cases disturb the linear production. A sudden change or a long transformation of consumers’ preferences will cause problems for the production and its linear payback on capital invested. Under all circumstances, the profit is not very huge in static production. Business protection or market protection is a relevant question when discussing the static environment. The interconnection between business and politics has opened a protective line for chosen businesses. The static economy does not offer room and opportunities for new arrivals among businesses or a philosophy characterized by letting the strong and mighty businesses eat and consume the small and weak ones. Government, organizations and strong and dominant stakeholders intervene in the market to protect preferred businesses by privileges and advantages that other businesses are not allowed; the purpose is to protect what they think is convenient and sustainable based on their vision and preferences of today’s knowledge and understanding. This attitude is fully in line with Veblen; man does not want any change. This kind of market dominations by a mixture of politics and strong capital interests might work for a limited time. Anyhow, in the long run it will turn out a big failure in the sense that the possibility of making new choices in the near and longtime future are minimized and eventually these companies will decline because the market competition inevitable will put an effective end to their operations. All kinds of market dominations in the name of business protection fall into this category like business rescue plans, startup programs, labor market programs and other interventions by private and government based finance. Consumers’ preferences might change due to pure political or ideological involvement in the free market. Climate engagement is one example. The international climate engagement has grown to a huge power around the world interfering in business life, culture, politics, religion, science and economy and peoples’ free choices and preferences as consumers. It has become much more than just a part of culture; it is an ideology that has grown like a traditional religious phenomena. It uses devastating and horrible ideologies that are known from most international religious systems throughout history. We have observed propaganda like dooms day is near, confess your wrong doing, repent, stop consuming the way your free will inspires you to do, and you, as a private individual are responsible for the critical situation. It goes on with allegations like you are destroying the future life not only for yourself, but also for your children and following generations, all the global population and the planet earth. These are just some of the fearsome statements and treats the movement uses in their vast propaganda machinery.

Anyhow, the movement goes further; it also attacks businesses and local and national government, organizations and religious systems. The international climate engagement also copy religion by using child prophets, provocateurs, thunder speakers, mass meetings, and huge conventions gathering tens of thousands of delegates, media and infiltration in politics, schools, universities, businesses, organizations, religious systems and private family life. The whole ideology and its effects on business can fully be analyzed by economic theory because it is apparently a part of the static circular flow. The international climate engagement does not have the ability to provide a qualitatively new phenomenon even though its faces are shifting over time. The movement is largely financed by a long line of different taxes, vat, forced production, membership fees, capital transfers, charity, volunteering, social peer pressure, salaries, donations, grants, subsidies, political privileges, force, fraud, lies and corruptions, to name some sources. None of these financial sources, individually or in any combination of these, has the ability to change from static to dynamic production. Still there is much money to make, personal popularity to strive for, and much power to gain in the international climate engagement. Everything described in this analysis of static production fits perfectly into the analogy of the blood circulation in an animal organism postulated by Schumpeter. Many small steps of change in the static economy, like political interventions with privileges aimed at the desired activities or introduction of horrible ideologies to command individuals and eventually the whole society to take a certain position on consumption, forced change of attitude and freedom decline can of course lead to a huge turnover or even big businesses. Anyhow, these factors are by nature of the same kind as data changes from without like growth of population and wealth increase.

Economic Development

Why did Schumpeter use the analogy with the animal organism? He could have used the human organism in the analogy instead; after all, economic development is more about human activity than anything else. Our task is not to speculate on this matter. We just want to underline that the animal organism as the rest of nature does not make any development in the economic system, and this is fully in line with the theory of economic development of Schumpeter. Economic development, according to Schumpeter cannot arise from the nature itself: "By "development" therefore, we shall understand only such changes in economic life as are not forced upon it from without but arise by its own initiative, from within". (Schumpeter, 2008, p 63). To arise on its own initiative from within is the carrying out of new combinations, i.e. the new combinations of land and labor. The man, the entrepreneur, is the one to make the carrying out of new combinations. The entrepreneur is not part of the production function; he is exogenous. Economic development is a distinct phenomenon, a spontaneous and discontinuous breaking of the previous existing equilibrium and a flow towards a new and previously non-existent equilibrium that alters and displaces the traditional way of producing. The entrepreneur, the man, is driven by his will and action and he has the human ability to see the result of his activities long before the process has even started. "Here the success of everything depends upon intuition, the capacity of seeing things in a way which afterwards proves to be true, even though it cannot be established at the moment, and of grasping the essential fact, discarding the unessential, even though one can give no account of the principles by which this is done" (Schumpeter, 2008, 85). The human ability to think abstractly, not to walk by the five senses, but act on what is not visible, is one of the fundamental principle behind the entrepreneur. The entrepreneur does not let tradition, experience, history, social condemnation or any other factor stop him. He is strongly motivated by three main factors; "there is the dream and the will to found a private kingdom, usually, though not necessarily, also a dynasty... Then there is the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but for success itself... there is the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity" (Schumpeter, 2008, p 93). In this connection, it seems very important to underline the fact that Schumpeter does not recognize profit or any other monetary gains as motivation for the entrepreneur. Entrepreneurial profits only serve as proof that the entrepreneur was successful and that his innovation was correct. This evidence is further strengthened in Schumpeter's theory of economic development based on the fact that the production function only operates with a new combination of first and second input factor during the spontaneous and discontinued process of change. Capital is not considered an agent; it is resolved into land and capital. For this reason, there is no (capital-) profit in the dynamic economy, only entrepreneurial profit. Everyone can be an entrepreneur, but only as long as he carries out the new combinations and the person loses that character when the business has been built up and a new equilibrium has been established. To be an entrepreneur is not a permanent position, like a farmer, a worker, a capitalist or any other position in the static economy. Our knowledge and understanding of the entrepreneur goes far back in time. Richard Cantillon states "Le Fermier est un entrepreneur" in his book *Essai sur la nature du commerce en général* published post mortem in 1755 (Cantillon, 1931). The entrepreneur is a risk taker and he combines the production means. Schumpeter, in his theory, gives credit to Jean-Baptiste Say who has written thoroughly on the matter. Say gives us a deeper understanding of the personality of the entrepreneur: "judgement, perseverance, and a knowledge of the world

as well as of business. He is called upon to estimate, with tolerable accuracy, the importance of the specific product, the probable amount of the demand and the means of its production; at one time, he must employ a great number of hands; at another, buy or order the raw material, collect laborers, find consumers, and give at all times a rigid attention to order and economy; in a word, he must possess the art of superintendence and administration" (Say, 1821, p. 330). It seems obvious that the entrepreneur is an extraordinary person, with extraordinary capacity and talents. He is one of the kind, and there are not many around. The will, the act, and the personality of the entrepreneur is what has created the enlightenment and is deeply embedded in our understanding of the civilized human being. Market protection, which is the opposite of business protection, secures an environment suitable for the entrepreneurs, and they are creators of economic development. Government cannot do the same as private individuals. Only human beings can develop the economy; natural data and adaptation to existing data as a continuous principle cannot. In this context, even meritocracy as a principle of governmental rule comes short, because education and other competitive factors cannot serve as trustworthy substitutes for the entrepreneurs. The capability of the entrepreneur does not arise from natural data, in other words, the entrepreneur is not a part of the static economy and is not covered by the analogy of the blood circulation in an animal organism. Economic development is about human action, talent and free will and can by no means be described by natural data.

Conclusion

Change in business development takes place when the entrepreneurs carry out the new combinations of the first and second input factors. The static equilibrium is broken and a new equilibrium is made on a higher level making it possible to produce more economically and differently than previously. Man does not want to change; only extraordinary individuals are able to make the change into the unknown possible. Changing environment, by adaptation to existing data does not develop the economy; it only drags the economy towards the optimum, a process that is further enforced by business protection. Market protection, on the other hand, indicates a free market competition, but does not guarantee a transformation to dynamic economy.

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Anotacija

VERSLO POKYČIAI

Priešingybė statinei ekonomikai yra ekonominės sistemos kaita. Ekonomikai būdinga tai, kad ji yra statiška kol nesikeičia verslo aplinka. Keičiantis nesocialiniams, neekonominiams socialiniams vartotojų duomenims statinė ekonomika neišvengiamai keičiasi. Šie smulkūs pokyčių žingsneliai yra laikomi natūraliais statinės ekonomikos svyravimais. Ekonominis vystymasis vyksta tada, kai įvyksta radikalūs, nenuspėjami ir nenutrūkstami pokyčiai, keičiantys gamybos būdą. Kas sukelia spontaniškus pokyčius, vedančius prie naujos ekonomikos pusiausvyros?

Šiame straipsnyje naudojami metodai: teoriniai statinės ir dinaminės ekonomikos istorijos aspektai; teorinių ir empirinių požiūrių į besikeičiančios aplinkos ir ekonominės raidos reiškinius analizė. Teorija vystoma daugiau nei 300 metų. Be to, analizė grindžiama nepriklausomu mokslu. Išvada daroma tik iš pateiktų teorijos ir mokslinių argumentų ir atspindi tolesnių šios temos mokslinių tyrimų viziją. Josephas Schumpeteris 1934 m. teoriškai statinę ekonomiką apibūdino kaip kraujo cirkuliaciją gyvūno organizme. Analogija su kraujo cirkuliacija gyvūno organizme yra labai aktuali ir puikiai apibūdina natūralių duomenų sistemą. Paprastas žmogus paprastai nenori gaminti, dėti visų jėgų į gamybos procesą, rizikuoti; jis verčiau nori vartoti ir mėgautis gyvenimu. Kita vertus, verslininkas veikia priešingai nei gyvūno organizmas. Atrodo akivaizdu, kad verslininkas yra nepaprastas žmogus, turintis nepaprastos galios ir gabumų. Jis yra vienas iš tokių, kurių aplinkui nėra daug. Ekonominė plėtra yra susijusi su žmogaus veiksmiais, talentu ir laisva valia ir jokių būdų negali būti paaiškinama gamtiniais apibūdinimais. Verslininkas ne tik kuria ekonominę plėtrą; jis taip pat yra civilizacijos propaguotojas.

Esminiai žodžiai: besikeičianti verslo aplinka, politinė propaganda, siaubingos ideologijos, religinis melas, inovacijos, gamybos funkcija.

**AUKŠTŲJŲ MOKYKLŲ VAIDMUO VISUOMENĖJE:
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Mokslo darbai

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2022

Editor – in – chief Kankevičienė Lina

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Technical editor Leščinskienė Danguolė

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Vyriausiasis redaktorius Kankevičienė Lina

Vykdantysis redaktorius Balynienė Rasa

Techninis redaktorius Leščinskienė Danguolė

Išleido Alytaus kolegija, Informacinių technologijų ir vadybos fakultetas, Seirijų g. 2, 62114 Alytus, Lietuva

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