

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Relationship between Entrepreneurship and Small, Medium and Micro Enterprises (SMMEs): A Literature Review

Dr. Francis Okyere

Lecturer and Programme Coordinator,

Department of Business and Management Development, National University of Lesotho, Lesotho

Abstract:

Through literature review, this paper seeks to examine the relationship between entrepreneurship and small, medium and micro enterprises (SMMEs), particularly identifying their similarities and differences. This review has become necessary because there is inconsistency in the use of the two concepts. Entrepreneurship and small businesses are very much intertwined to the extent that more often than not, they are used interchangeably, as if they mean one and the same thing. Even though entrepreneurship and SMMEs play a significant role in employment, income and societal changes, particularly in emerging economies, they are not synonymous. By carefully reviewing literature on both concepts, the study concludes that entrepreneurship differs from SMMEs. Thus, entrepreneurship is a process leading to the creation of SMMEs and large business ventures.

Keywords: entrepreneurship, entrepreneur, small, medium and micro enterprises (SMMEs), small business owner

1. Introduction

Entrepreneurship and small, medium and micro enterprises (SMMEs) have played a vital role in the transition periods of all transforming economies. They were able to respond to the opportunities created by the systematic changes better than the larger and more established firms (Hashi and Krasniqi, 2010). Thus, both entrepreneurship and SMMEs are recognized globally as the backbone of all economic development (Abor and Quartey, 2010; Okyere, 2017), since they are acknowledged as instruments for achieving economic growth and development as well as employment creation (Rebecca & Benjamin, 2009; Pandya, 2012). For instance, the European Union (EU) (2012) report estimates that about 23 million SMMEs provide about 75 million jobs and represent 99% of all enterprises, in about 25 member countries. Furthermore, 99% of firms in the EU are SMMEs and they provide two-thirds of all private sector jobs. The same source states that SMMEs are one of the primary reasons why unemployment is low in Europe. Large firms have been shedding jobs while employment in the SMME sector has increased.

Several studies from developing countries also acknowledge the contribution of small businesses, both through their importance in the economy and job creation. For example, the National Credit Regulator (NCR) (2011) in South Africa and Fjose et al. (2010) estimate that SMMEs represent over 90 per cent of private business and contribute more than 50 per cent of most employment in Africa. Abor and Quartey (2010) also point out that, SMMEs in Ghana form 97.5 per cent of all businesses and provide about 85 per cent of employment. While in Zimbabwe, Manyani (2014) reckons that, SMEs account for 90 per cent of the country's employable population.

Similarly, the importance of entrepreneurship in achieving economic growth in contemporary economies is widely recognized, by both policy makers and economists (Van Stel, 2005; Okyere, 2017). The European Commission (2003) reports that entrepreneurship is so deeply embedded in the European Policy approach that the creativity and independence of entrepreneurs contribute to higher levels of economic activity. Van Stel (2005) contend that among the various contributions of entrepreneurship to economic development are those pointed out by Schumpeter (1934), Knight (1921) and Kirzner (1973). These economists stress different aspects of the role of the entrepreneur. Schumpeter stresses the innovating aspect, Knight, the risk assuming aspect, and Kirzner, the role of the entrepreneur in leading markets to equilibrium. Tagraf and Akin (2009) and Bula (2012) add that entrepreneurship is a source of innovation and change, and as such spur improvements in productivity and economic competitiveness.

Therefore, the observation by Manyani et al. (2014) is justified when they opined that entrepreneurship and SMMEs are the seedbed for economic development, and the lifeblood for commerce and industry at large. However, Carree and Thurik (2002) and Lucky (2012) argue that in spite of their contributions to socio-economic development, entrepreneurship and SMMEs are not synonymous. Based on this assertion, this paper aims to unearth the similarities and differences between entrepreneurship and SMMEs, thereby contributing to clarifying the inconsistency in the use of the two concepts. The key objective of this paper is to distinguish between entrepreneurship and SMMEs.

This article begins with a literature review, by firstly examining the definitions of both SMMEs and entrepreneurship. This is followed by examination of similarities and differences between entrepreneurship and small business, and a model used to distinguish the two concepts is presented. Finally, the paper ends with conclusions and recommendations.

1.1. Methodology

As a conceptual paper, the researcher adopted a reflective stance by relying solely on secondary literature. According to Dzansi and Hoeyi (2013), this stance is consistent with interpretivist reasoning in the social sciences.

2. Literature Review

2.1. Defining SMMEs

The SMMEs sector is generally categorised into three: micro, small, and medium enterprises or businesses. The micro SMMEs are the smallest among the three categories. Lucky (2012) notes that SMMEs are firms arising as a result of entrepreneurial activities of individuals. While experts agree that SMMEs are the backbone of any economy, there is no universally accepted definition. Du Toit et al. (2012) associate this difficulty in formulating a universal definition to different economies of countries and the fact that people adopt particular standards for specific purposes. While national governments, bilateral donor agencies and international organizations such as European Union (EU), World Bank and regional development banks each have their own formal definitions of what an SMME is. The definitions have the commonality that they recognize enterprises of a certain size as either “micro”, “small” or “medium-sized” in comparison to larger enterprises (Okyere, 2013). The definitions typically include aspects such as number of employees, size of annual turnover, and total assets.

Du Toit et al. (2012: 52-53) observe that in most countries, it is an accepted practice to make use of quantitative criteria when attempting to define a small business enterprise. Example of quantitative criteria in defining a small business are: the number of employees; the sales volume; the value of assets; and the market share. Moore et al. (2010:5) argue that the following criteria make a business fall under the SMME sector: the business is relatively small with the number of employees fewer than 100.; except for its marketing function, the business’s operations are geographically localized.; financing for the business is provided by no more than a few individuals; and the business usually begins with an individual.

In South Africa, SMMEs are defined as businesses that are independently owned and managed, and employ more than 5 but less than 200 people (Turyakira et al. 2012). The Ministry of Trade and Industry Cooperative and Marketing (MTICM (2008) in Lesotho classifies businesses as micro, small or medium based on staff numbers: micro enterprises-fewer than 3 staff members; small enterprises-4-9 staff members; and medium enterprises-10-49 staff members. MTICM also recognises a small business as a firm that is independently owned and owner-managed and has a small market share. In contrast, in the United States where small businesses are defined by the number of employees, businesses with fewer than 100 employees are classified as small, while those fewer than 500 are called medium-sized enterprises (Natarajan and Wyrick, 2011). For the purpose of this study, *a small business is considered an SMME if it fulfils one or more of the following criteria: fewer than 200 employees; independently owned; and direct involvement of owner(s) in the management of the business* (Okyere, 2016).

2.2. What is Entrepreneurship?

Although research regarding entrepreneurship has been a challenge given the absence of a consistent definition of the term among scholars (Williams and Nadin, 2013), prior studies have identified a number of core goals that can be considered in defining entrepreneurship, namely: to define entrepreneurship as a creative business whose fundamental purpose is to create value by innovatively bringing together resources to exploit opportunities for the purpose of wealth creation (Herbert and Link, 2011; Lucky and Olusegun, 2012; and Bula, 2013). A few extant ones will be reviewed leading to an operational definition for the purpose of this paper.

Rebecca and Benjamin (2009) lend support to the above by explaining that, entrepreneurship is a process of organizing, managing enterprises and assuming the risk involved in the enterprise. Thus, entrepreneurship is seen as a process of creating something new and assuming its related risks and rewards.

Frederick and Kuratko (2010) contend that, in recognizing the importance of the evolution of entrepreneurship in the 21st century, there is a need to develop an integrated definition that acknowledges the critical factors needed for this phenomenon. They therefore define entrepreneurship as “a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. Essential ingredients include the willingness to take calculated risks in terms of time, equity, or career; the ability to formulate an effective venture team; the creative skills to marshal needed resources, the fundamental skill of building a solid business plan, and, finally, the vision to recognize opportunity where others see chaos, contradiction and confusion.”

Van Aardt et al. (2011) state that, entrepreneurship is defined as the act of initiating, creating, building, expanding and sustaining a venture, building an entrepreneurial team, and gathering the necessary resources to exploit an opportunity in the marketplace for long-term wealth and capital gain. Lucky and Olusegun (2012) on the other hand, argue that many authors have stressed the need for learning new skills and techniques, recognizing opportunities, mobilizing resources, an act or process, rewards, taking of risks and creation of wealth but none has recognized the importance of “nurturing” entrepreneurship. The authors therefore maintain that, the definition of entrepreneurship can be better appreciated if the word “nurturing” was included. They see it as a process of nurturing

entrepreneurship as well as the entrepreneur from the grassroots to recognize opportunities in the environment so as to mobilize resources, by taking risk in order to create wealth and at the same time making profit through efficient management of the business.

The review on the definition of entrepreneurship above has portrayed the concept as a combination of three elements, namely, (i) the context in which the opportunity arises and is created, (ii) a set of personal abilities necessary to identify and use that opportunity, and (iii) the capacity to materialize the opportunity, by transforming it into results. Entrepreneurship is therefore a process, and the outcome of complex, socio-economic, psychological and other factors. Entrepreneur is the key individual central to entrepreneurship who makes factors happen. Entrepreneur is the actor and entrepreneurship is the act.

For the purpose of this empirical study, entrepreneurship is operationally defined as *“the process whereby a person uses his or her creativity and innovation to establish a business because he sees an opportunity, and manages the business with the aim of making profit while acknowledging the risks involved”* (Okyere, 2016).

Finally, the discussion on the definition of entrepreneurship in this section has revealed the following as key elements in the concept: *innovation, creativity, risk taking, recognition of opportunity in the market, establishment of a new enterprise, managing the enterprise, creation of value to society, growing the enterprise, and creation of employment.*

3. Similarities and Differences between Entrepreneurship and SMMEs

3.1. Similarities

Literature on the topic suggests both entrepreneurship and small businesses are recognized as significant players in socio-economic development (Ahmed, 2010 and Bula, 2013). They both have been noted for employment creation, economic growth, economic development and economic transformation. Uma (2013) supports this view by pointing out that, SMMEs and entrepreneurship play a significant role in socio-economic transformation of national economy. Thus, both SMMEs and entrepreneurship aim towards the same objectives (Lucky, 2012).

Lucky and Minai (2011) acknowledge that, in spite of their differences, the following similarities can be identified between SMMEs and entrepreneurship: they are both affected by the same factors. Thus, their success or failure is determined by some set of similar factors. For example environment, culture, location, individual characteristics, and firm characteristics, among others. The authors advise that in the study of SMMEs and entrepreneurship, these factors cannot be neglected as they significantly determine the outcome of both concepts.

Furthermore, Lucky and Olusegun (2012) concede that SMME owners/managers and entrepreneurs tend to possess the same or similar characteristics or traits for business management. They list the following as some traits both possess: initiative (self-initiated individuals), perseverance (strong determination and patience), emphasis on diligence, commitment to agreement/contract, orientation towards perseverance (patience), systematic planning, creative problem-solving, self-confidence, use of influencing strategy (ability to influence other people), integrity and reliability. According to the authors, these traits have assisted both SMME owners/managers and entrepreneurs to effectively and successfully excel in their various endeavours.

3.2. Differences

Much as the two concepts overlap, they have their differences. Firstly, entrepreneurship is a process that leads to the creation of SMME, while SMMEs are firms or business ventures that are managed by individuals or owners/managers. Lucky and Olusegun (2012) posit that in terms of purpose, entrepreneurs discover, innovate and establish businesses, whereas SMME owners capitalize on managing their businesses or firms. They hardly engage in looking for business opportunities like the entrepreneurs. Hence, they produce, buy and sell goods and services.

Also, they differ in terms of their different and special skills. According to Lucky and Olusegun (2012), SMME owners and entrepreneurs, seem to possess different and unique skills. For example, the entrepreneur possesses the skill to discover and innovate, which allow him or her to always seek new businesses or ventures. SMME owners, on the other hand, possess the managerial skills that enable them to effectively manage their firms or businesses without much problems.

Similarly, Du Toit et al. (2012) argue that, entrepreneurs differ dramatically from small business owners/managers in that small-business owners are satisfied with some autonomy and earning a reasonable income for themselves and perhaps a few employees, but have no intention of growing and developing their businesses entrepreneurially. While, according to Nieuwenhuizen (2011), entrepreneurs introduce new products, or buy new businesses, decide which risk taking, and moving into new markets.

In addition, a small business firm is:

- independently owned or operated
- is not dominant in its field, and
- does not engage in innovative practices.

An entrepreneurial venture, in contrast, is:

- any business whose primary goals are growth and profitability
- innovative, and
- engage in strategic practices.

Tagraf and Akin (2009) reiterate that creativity and innovation are two key attributes that differentiate entrepreneurs from small business owners. Ahmed (2010) contend that an entrepreneurial enterprise is primarily differentiated by the enterprise strategic and innovative practices. Rwigema and Venter (2004) posit that SMMEs typically lack entrepreneurial orientation posture which is a crucial element in sustaining the business in turbulent markets.

To clearly substantiate their difference, Figure 1 offers more details. The two intersecting circles depict the differences between the two concepts. The intersection shows their similarities.

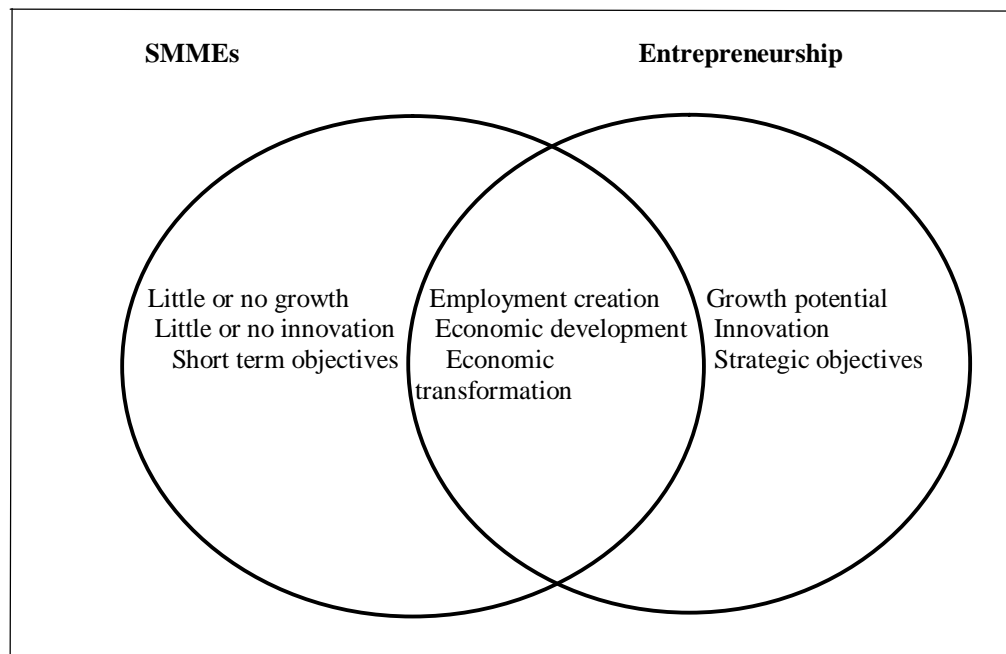


Figure 1: Differences and similarities between SMMEs and entrepreneurship
Source: Okyere (2016)

In spite of their differences, entrepreneurship and SMMEs play vital roles in the development and growth of an economy. SMMEs are seen to account for quite a significant proportion of the business sector while entrepreneurial ventures are regarded as the engines of economic growth and job creation.

4. Conclusion

The inconsistency in the use of SMMEs and entrepreneurship has made this article necessary. Thus said, the paper attempted to explore the discrepancy between entrepreneurship and SMMEs studies. It emerged that although the meanings of the terms entrepreneurship and small business overlap considerably, the two concepts are different. The discussion distinguished between SMMEs and entrepreneurship by highlighting the similarities and differences between the two concepts. Lucky and Olusegun (2012: 488) aver that although SMEs and entrepreneurship tend to achieve the same goal, however both concepts differ considerably, according to definition, function and purpose.

Generally, SMMEs and entrepreneurial ventures are two different types of businesses whose owners have different intentions. Small businesses typically start small and stay relatively small, providing a lifestyle, or a job, and a modest level of income for their owners, and have little impact in their industries. Entrepreneurial ventures, on the other hand, have founders with different motives and goals. These founders are innovative and growth oriented. Their purpose is not to create jobs or occupation for themselves but to create value and wealth that they can harvest at a future date. Owing to the aforementioned, the paper concludes that entrepreneurship is not synonymous with small business. Entrepreneurship is a process while SMMEs are firms. Carree and Thurik (2009) conclude that small firms are an outstanding vehicle for individuals to channel their entrepreneurial ambitions.

5. Recommendations

It is recommended that policy makers, academics and scholars in the field should desist from the indiscriminate use of entrepreneurship and SMMEs, since pragmatic distinctions can be discerned between the two concepts. Also, as advised by Lucky (2012), more research needs to be done in order to advance this debate so as to close the gap of the indiscriminate use between entrepreneurship and SMMEs.

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