

An Empirical Study on the Disparity between Small Businesses and Entrepreneurship in Developing Economies

Abstract: Entrepreneurship has been recognized globally as the catalyst of economy growth and job creation. Though the term entrepreneurship has been in existence for many years, people hold different views regarding small businesses and entrepreneurship. In view of this, the trend in most developing economies is to use small businesses and entrepreneurship interchangeably which has made it difficult to harvest the gains of entrepreneurship. Thus this study investigates the disparity between small businesses and entrepreneurship in a developing economy. Deriving from previous research, this study draws on Schumpeter's entrepreneurship theory of innovation to develop the argument that the entrepreneurial innovation is new combinations that distinguishes between small businesses and entrepreneurship. The objective is to present empirical findings and related literature to clarify the activities going on in the developing economy of Nigeria as to whether they are mere small business activities or entrepreneurship. The quantitative approach was employed with the survey method using a questionnaire for data collection. The sample frame is all registered micro and small manufacturing and retail firms in the North Central region of Nigeria. A census-based method was employed for the 450 registered firms in order to obtain a robust result. The data was analyzed using descriptive statistics and Pearson-moment correlation analysis to establish the strength of relationship between the variables. The findings reveal that majority of the respondents' perceived small businesses and entrepreneurship as synonymous even when the small businesses activities are not entrepreneurial. The study concluded that there is a strong correlation between the small businesses and entrepreneurship. The study recommends an intensive enlightenment campaign by Corporate Affairs Commission (CAC) using media platform and slogans to sensitize the masses on entrepreneurship as different from small businesses. CAC in collaboration with Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) should organize training and workshops for businessmen and practitioners regularly in order to re-orientate them on the principles and practices of entrepreneurship. Finally, education at all levels should be reinforced along the line of entrepreneurship by policy makers.

Keywords: Business owner, developing economies, economy entrepreneurship, innovation, manufacturing firms, small businesses.

1. Introduction

The role of small businesses and entrepreneurship in any economy cannot be over-emphasized as the agent of economic growth, employment creation and poverty alleviation (GEM, 2015/16). Several mechanisms are being employed in promoting entrepreneurship and small businesses growth globally (Nichter and Goldmark, 2009; Oyefuga, Siyanbola, Afolabi and Dada, 2008) because these twin concepts

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have a great potential in any country's economy including 'declining economy' (World Bank Report, 2010; Ndesaulwa and Kikule, 2016). Though the terms 'entrepreneurship' and 'small businesses' have existed for many years, people hold different views about them. Several studies (such as Carland et al., 1984; Morris et al., 1994; Venkataraman, 1997; Audretsch and Keilbach, 2007) have explored their concept of entrepreneurship and small businesses but the variance in these concepts especially in the developing economies context have been largely unexplored. Therefore, there exists a gap in the knowledge for this study for an empirical study on the disparity in the perception of small businesses and entrepreneurship in developing economies.

The aim of this paper, therefore, is to investigate the differences in the perception of small businesses (often referred to as micro and small and medium enterprises) and entrepreneurship in a developing economy. This is because getting the right concept will guide in harvesting and evaluating the gains of entrepreneurship on the economy. Micro, small and medium sized firms are the main driver of business activities and entrepreneurial behaviors. Thus, this study draws on Schumpeter's entrepreneurship theory of innovation to develop the argument that the core of entrepreneurship is innovation while innovations are new combinations that distinguishes small businesses from entrepreneurship. This study will provide relevant related literature and empirical findings to clarify whether the activities going on in a developing economy are mere business ownership or entrepreneurship. This paper is structured thus, first, a review of the literature on entrepreneurship and small businesses and define the research question. Next, we discuss the research methodology employed for the empirical work. Then, the data analysis result and discussions, and finally, the conclusion and recommendations for practice and policymaking.

2. Review of Related Literature

2.1 Entrepreneurship

Entrepreneurship means different things to different people depending on the context where it is being used. However, entrepreneurship can be defined in terms of who the entrepreneur is and what he does (Venkataraman, 1997). In 1994, Morris, Kuratko and Covin made a critical review of 77 definitions of entrepreneurship from reputable journals and prominent textbooks that have achieved global acceptance between 1982 and 1992. He analyzed and synthesized the content of the keywords for entrepreneurship and the result is displayed in table 2.1 below:

Table 2.1: Key terms identified in content analysis of seventy-five contemporary studies

| | |
|--|----|
| • Starting/founding/creating | 41 |
| • New business/new venture | 40 |
| • Innovation/new products/ new markets | 39 |
| • Pursuit of opportunity | 31 |
| • Profit seeking/ personal benefit | 25 |

Source: Morris et al., 2011 p.11

The five of the 18 keywords surfaced more than five times are displayed. Since many and different groups of people are involved in the transitory course of entrepreneurship. Defining entrepreneurship in terms of the individual is using the micro unit of analysis which involves the creation of 'new' organizations (Low and Macmillan, 1988) while defining it at the firm level is the creation of 'new' venture within an existing organization (Amit, Glosten and Muller, 2007). Summarily, it is the introduction of new business activities into the economy in order to improve the standard of living of the masses. The emphasis 'new' can be categorized in terms of the newness to the world, environment, industry or company (Morris et al., 2012). The key player in these acts is the entrepreneur that discovered the opportunity, evaluated, and decided to exploit it by seeking and organizing resources for a new firm or market for the opportunities (Venkataraman, 1997). However, Entrepreneurship and innovation are interrelated as the role of Schumpeter's entrepreneur cannot be clarified except it is considered under the lens of his theory of innovation as an agent of change.

2.2 Schumpeter's entrepreneurship theory of innovation

Entrepreneurship and innovation originated from Schumpeter's 'creative destruction' of the circular flow by which life is injected into the economy, thereby creating a state of disequilibrium leading to an opportunity for exploitation in the marketplace. Innovation brings about a 'perennial gale of creative destruction' where the old gives way to the new (Schumpeter, 1934; Mitra, 2012). In recognizing the place of an entrepreneur in the factor of production, Schumpeter (1934) described the entrepreneur as an innovator, whose duty is to carry out new combinations for economic development. He emphasized 'that one behaves as an entrepreneur only when carrying out innovations' (Carland et al., 1984: 354) and innovation is the introduction of a new or improved product/service, a new process, opening of new market/marketing techniques, development of new sources of supply of raw materials based on scientific or technology knowledge, and/or organizational know-how (Schumpeter, 1934; OECD,2015). Entrepreneurship is recognized as a driver of innovation and economic growth (Schumpeter, 1934; Henrekson and Sanandaji, 2017). Innovation, simply is the improvement on what exists or creating what does not exist and its only complete when it gets to the market place (Morris et al., 2012). Entrepreneurship theory is concerned with understanding the

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innovative process, identifying and exploiting opportunities that foster the creation of rapidly growing firms. It is therefore obvious that a relationship subsists between entrepreneurship and innovation as a backdrop to a critical review of small businesses.

2.3 Small Firms/Businesses

The term micro and small firms are both legal and economical meaning. Various opinions exist about small firms definition by classification and measurement criteria (Storey, 1994) but with differences within regions and across countries (Nichter and Goldmark, 2009; Storey, 1994) without global benchmark (GEM, 2009). They are often classified by rate of turnover, profitability, market share, number of employees (size) and/or net value of assets. Most countries prefer number of employees as a common measurement for definition as being a clearer indication of changes in an organizational composition (Davidsson and Wiklund, 2006; Adeyeye, Abubakar and Mitra, 2015). However, Gibson and van der Vaart (2008) argued that defining SMEs according to the number of employees is misleading as this implies that to grow is to have more employees. On the contrary, most studies on SMEs in developing economies employed number of employees due to the information asymmetry and confidentiality attached to finances, employers can easily recall the number of employees even without records than adopting turnover or total assets (Nichter and Goldmark, 2009). For instance, in Nigeria less than 10 employees and N1.5m capital are micro firms, 10 – 99 employees and capital outflow of N5m are small firms (SMEDAN, 2003) while in Europe it is 0-9 for micro firms, 10- 49 for small firms (European Commission, 2003) and United States of America, 0-6 for micro firms, 7-249 for small firms (World Bank Report, 2007).

There has been a general consensus by researchers that a positive correlation exists between small firms and economic growth (Acs and Audretsch, 2003; Nichter and Goldmark, 2009). Empirical research reveals the prominent role of SMEs to economic development, especially in the area of wealth creation and employment generation in countries like China, India, Malaysia, Nigeria, Ghana and a few others (Egbetokun, Siyanbola, Olamide, Adeniyi, and Irefin, 2009) as alarming. (Small Business Service, 2006; World Bank Report, 2007). Most of these firms are not in formal sectors; some occupy unofficial labor market, which varies in size from an estimated 4%-6% in developed countries to over 50% in developing nations (World Business Environment, 2012).

Nevertheless, Abereiyo and Fayomi (2005) argued that SMEs in developing economies have unique features that distinguished them from developed economies because the private economies are almost entirely comprised of SMEs'. They serve as the only practical employment opportunity for millions of poor people globally. The wealth and poverty of developing economies are connected to the characteristics of SMEs in recent times and where small firms existed abundantly, it obviously played quite significant role in innovation, competitiveness and economic growth (Davidsson and Wiklund, 2006).

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World Bank Report (2007) categorized all countries as low, middle and high income and level of contribution of SMEs to employment and GNI. The low income countries SMEs are comparatively low in both employment and GDP contributions. There are great disparities in SMEs development across the low income countries especially in Sub-Sahara Africa. For example, SMEs are prospering in South Africa, Mauritius and North Africa, where there are good financial systems and favorable government policies. In others, political instability is a barrier. In Equatorial Guinea, Chad, Gabon, and Congo, the non-oil business was regressed by the oil dominating businesses. Kenya and Senegal stand in-between these extremes with a positive environment for SMEs growth but are crippled by financial system imbalance. SMEs in South Africa provided above 55% of all jobs but accounted for 22% of GDP in 2003 while large firms accounted for 64% (Kauffman, 2005). 'In Nigeria, SMEs (about 95 per cent of various manufacturing activities) are key to the economy but insecurity, corruption and poor infrastructure prevent them from being motors of growth (Kauffman, 2005 p.2)'. These show the state-of-the-art of SMEs in developing economies.

SMEs are generally weak in Africa due to more often than not, the institutional factors. Many firms stay small and informal using simple technology that requires little usage of national infrastructures and using the small size as a shield from legal proceedings that allows for flexibility amidst uncertain business conditions (Lukas, 2005). Such mindset would not promote entrepreneurship and can be considered the aftermath of ignorance among the masses in the developing nations.

2.4 Conceptualization of Small Businesses and Entrepreneurship

In Nigeria, entrepreneurship and small businesses are interchangeably used especially for self-employment. Small businesses are regarded as drivers of business activities and entrepreneurship. They are heterogeneous firms operating in any sector like service, trade, agri-business, manufacturing and so on. They include a wide variety of firms such as village handicraft makers, retailing and wholesaling, small machine shops, and ICT firms that possess a wide range of complexity and skillfulness (Lukas, 2005). Some of these firms are dynamic, innovative, and growth-oriented, for instance, radical changes in ICT and biotechnology have created market opportunities that are more effectively developed by small firms (Stam and Gamsey, 2007). While others are satisfied with remaining small and perhaps being family owned (Lukas, 2005) employing more wage-earners than salary earners. It is important to note that, entrepreneurship is not what an organization has or not because the most bureaucratic organization has highly entrepreneurial people whose potentials are under-utilized (Morris et al., 2012). However, the concern is with the relative focus on innovation, that is, activities that characterize a departure from the current trend. In other words, the extent to which a small firm innovate, that is doing things that are novel (New), unique, or different regularly (Morris et al.2012) in terms of Schumpeter's theory transforms such from small business to entrepreneurship. Entrepreneurship is not an appellation because once a firm stops innovating it becomes mere small

business. SMEs are critical to improving economic activity, job creation, poverty alleviation and generally improving living standards but entrepreneurship is more critical.

Conceptually, micro and small firms may be divided into traditional and entrepreneurial (Megginson, Byrd, and Megginson, 2003). A traditional firm is deemed to be one which is independently owned and operated but not dominant in its field, and does not engage in any new marketing or innovative practice while entrepreneurial firm are distinguished by their high level of innovation and desire for profit and growth (SBA, 2009). Innovation is the definite role of entrepreneurship, therefore, any business that focuses on continuous high-level innovation is entrepreneurship (Kuratko, 2009). Consequently, Megginson et al. (2003) used two factors: aims and rapidity of the growth rate of a business to contrast between traditional small firms and entrepreneurial firms. They proposed traditional small firms are contented with ordinarily managing businesses, expecting normal sales, profit and growth with a degree of freedom and financial independence while entrepreneurial firms are characterized by innovative strategic practices and/or products with the principal objective of profitability and high growth (Henrekson and Sanandaji, 2017). So, these traditional small firms have little tendency for a high degree of innovation and growth. Growth is the very essence of entrepreneurship which occurs over time. Firm growth is usually associated with successful firms (Kuratko, 2009) which implies that only successful firms can grow and only growing firms can innovate and be referred to as entrepreneurship.

Conclusively, entrepreneurship is not synonymous to all small firms (Carree and Thurik, 2002) as it has been commonly viewed. Certainly, micro and small firms are outstanding vehicles to channel individuals' business initiatives and entrepreneurial behavior and aspirations. The small firms are an expression of the individuals in charge thus firms that accommodate and convey the individual's high level entrepreneurial activities until market place are entrepreneurship as subsequently distinguished from traditional small firms (Carland et al., 1984) that are proprietorship.

'Proprietorship' describes the ownership of property and other assets which may be used for trading purposely to realize profits. Any surpluses generated by proprietors are likely to be consumed and used to sustain the living standard rather than re-invested for innovation and expansion. For instance, Scase (2003) assessment of the transition economies of Russia and Central Europe is such that small businesses may be numerically significant, particularly in sectors such as services and retailing, offering employment and providing income for those involved whereas the proprietors who own and run most of these firms are incapable of constituting an indigenous force for economic development hence, such businesses cannot be considered as entrepreneurship. In view of this, there seems to be a key relationship between entrepreneurship and small businesses that needs some illumination.

3. Methodology

In order to achieve the stated objective, the study employed a quantitative approach using the survey method to collect primary data from micro and small manufacturing and retail businesses at firm level. The target population are all micro and small firms located in North Central region that are registered with the Corporate Affairs Commission of Nigeria. Thus the sample frame contains all the 450 micro and small firms and a-census based method was adopted to have a robust result since the sample frame is not so large.

A questionnaire consisting of closed-ended questions identified from literature was used for measurement. Most of the owners were relatively unsophisticated therefore, response categories were kept simple. There are four sections in the questionnaire: The demographic profile, the business owners, the entrepreneurs and level of innovation, and the general assertions on entrepreneurship. Data collection was done within the month of July and August, 2017. The content and construct validity were carefully considered by careful comparison with the research objectives and pre-testing with small sample similar to the population. The corrections were appropriately made. The reliability was tested using Chronbach's alpha with a co-efficient of 80.3%, thus meaning that the reliability was acceptable.

Eight research students were engaged for the field work with some orientations to visit the business premises for personal administration of the questionnaires. The addresses were sorted out on geographical basis even though there is inequality in the distribution as some areas have more firms than the others. The data was analyzed using descriptive statistics to investigate the disparity between small businesses and entrepreneurship while Pearson-Moment correlation analysis used to establish the strength of relationship that subsists between small businesses and entrepreneurship. Preliminary analysis were performed to ensure no violation of normality, linearity and homoscedasticity.

4. Results and Discussion

The small firms that participated in this survey reflected considerable diversities in terms of gender, age, type of business, size of business, years of existence, categories of ownership and number of branches. The profile is presented in table 4.1.

Table 4. 1: Profile of Participating Small Firms

| Variables | Categories | Frequency | % |
|-------------------------|-----------------|-----------|----|
| Gender | Males | 244 | 54 |
| | Females | 206 | 46 |
| Age | 16-25 years | 104 | 23 |
| | 26-35 years | 188 | 42 |
| | 36-45 years | 122 | 27 |
| | 46 years above | 36 | 8 |
| Type of Business | Service | 154 | 34 |
| | Trade | 245 | 55 |
| | Manufacturing | 51 | 11 |
| Size (No. of employees) | 0-9 | 399 | 89 |
| | 10-99 | 51 | 11 |
| | 100 above | 0 | 0 |
| Years of existence | Less than 5yrs | 218 | 49 |
| | 6-10yrs | 143 | 32 |
| | 11-15yrs | 60 | 13 |
| | 16 above | 29 | 6 |
| Category of ownership | Entrepreneurs | 268 | 61 |
| | Business wo/men | 173 | 39 |
| No. of branches | 1 | 358 | 80 |
| | 2-5 | 86 | 19 |
| | Outside Minna | 6 | 1 |

Source: Fieldwork (2017)

This profile reflects a suitable heterogeneous sample found in the main categories of firm distribution without bias. About nine-tenth are micro businesses, four-fifth owned only one branch and three-fifth claimed they are in entrepreneurship out of the sample. Nichter and Goldman (2009) argued that most small firms in developing countries will never experience substantial growth despite their creativity and diligence which partly can be attributed to knowledge gap. These micro and small firms in this sample are basically occupied with proprietorial activities for personal consumptions with little propensity for growth. They solve a fractional part of economic problem by offering employment to a few others (Adeyeye, 2009). However, various optional reasons were given to ascertain their understanding of their reason for claiming to be in entrepreneurship (details in table 4.2). Scase (2003) drew attention to the fact that only minority of small businesses can be considered 'entrepreneurship' in the classical sense because of the low level of innovativeness of the firms.

4.1 Analysis of Small Businesses and Entrepreneurship

Business ownership is a common knowledge in Nigeria but entrepreneurship seems to be misconceived. Options were given to find out reasons for considering their enterprise as entrepreneurship. The result is presented in table 4.2 below.

Table 4.2: Level of Innovativeness

| Variables | Categories | Frequency | % |
|--|---|------------------|----|
| Reasons for considering self as entrepreneur | Self-employed | 127 | 50 |
| | Owens a factory | 42 | 17 |
| | Successful trader | 36 | 13 |
| | Acquired skills | 42 | 17 |
| | Oil and gas business | 8 | 3 |
| | Doing things differently from others. | 0 | 0 |
| Uniqueness of enterprise | Doing the same things like others | 253 | 56 |
| | Doing exceptional things from others | 197 | 44 |
| Point of uniqueness | New/improved product/service | 100 | 26 |
| | New/improved process | 102 | 27 |
| | New/improved packaging | 90 | 24 |
| | Expansion into new market/market techniques | 86 | 23 |
| | Degree of newness | New to the world | 8 |
| | New to the market | 50 | 43 |
| | New to the company | 59 | 50 |

Source: Fieldwork, 2017

Table 4.2 reveals that about half of the respondents claimed that their firms are entrepreneurship because they are self-employed and the remaining half chose other options but none claimed to be entrepreneurship because things are done differently by the firm. This result is in line with GEM (2013:17) perception of entrepreneurship as “any attempt at new business or new venture creation, such as self-employment...” This is because self-employment as entrepreneurship is very prominent in developing economies as the option for limited or non-existent job mainly to alleviate poverty and for self-sustenance. Even though self-employment contributes to the elasticity and efficiency of the

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overall economy, some self-employed could possibly be more productive by working as employees. Generally, self-employment is the last resort from the surrounding frustration of unemployment or under-employment syndrome (GEM, 2015/16). The unemployed is prone to possess lower endowments of human capital, excitement, experience and entrepreneurial talent needed to begin and maintain a firm, thereby anticipating growth. Such a person in self-employment may not be equipped enough to become entrepreneurial, but just a ‘solo self-employed’ as in this sample. Entrepreneurship researchers have recognized that entrepreneurship is more than viewing it as an occupation (self-employment; startup rates) rather as entrepreneurial behavior, including entrepreneurial employee activity in corporate organization (GEM, 2014, Henrekson and Sanandaji, 2017).

The importance of innovative orientation of a firm is significant to its being entrepreneurial is in consonance with the Schumpeterian concept of innovation on which this study is based. In order to ascertain the level of the innovativeness of the respondents, certain options were given (details in table 4.2). For more clarity, less than half claimed that they do things uniquely from others such as the introduction of new/improved service, process, packaging or/and expansion into new market. The degree of this innovativeness was examined, half of those who claimed to be unique is limited to their firm while two-fifth are unique to the market. Market is important in developing economies (Acs and Virgill, 2009) as most of their innovations are mere transfer of innovation from developed countries into another market (OECD/Eurostat, 2005) hence this new to the market cannot be overlooked. Whilst the 8% claimed uniqueness to the world but has not been empirically confirmed. Thus the degree of newness of this sample is low on a general note (Morris et al. 2012).

Table 4.3: Different Assertions about Entrepreneurship

| Variables | Categories | Frequency | % |
|-----------------------------------|------------------------|-----------|-----|
| Assertions about Entrepreneurship | A small business owner | 169 | 39 |
| | Skill acquisition | 213 | 49 |
| | Business Education | 198 | 46 |
| | Buying and selling | 153 | 36 |
| | Petty trading | 116 | 27 |
| | Manager | 192 | 44 |
| | Dealers in oil and gas | 201 | 46. |

Fieldwork, 2017

Finally, the various assertions about entrepreneurship reveals the diverse misconceptions people have about entrepreneurship. Respondents were given options to choose either ‘yes’, ‘no’ or ‘not sure’. About one –third of the respondents were not sure of what entrepreneurship is about. While many claim that entrepreneurship is synonymous to small businesses (details in table 4.3). Where there are Adeyeye, M.M., Ikupolati, A.O, and Ndibe, L. (2018). An Empirical Study on the Disparity between Small Businesses and Entrepreneurship in Developing Economies. Proceedings of the 6th International Conference on Innovation and Entrepreneurship held on 5-6, March at the University of the District of Columbia, Washington, DC, USA, Pp. 8-15.

misconceptions, there will be wrong behavior hence the need for clarifications so that business owners would stop living in the fool's paradise and strive to manifest or improve their entrepreneurial behavior in order to make an impact on the economy.

4.2 Relationship between Entrepreneurship and Small Businesses

There is a strong, positive correlation between Entrepreneurship and small businesses ($r = .495$, $n = 268$, $z = .543$ at $P < 5\%$). This is in consonance with Ndesaulwa and Kikule (2016) findings on a study in Tanzania. From the result, it can, therefore, be established that small businesses are the foundation on which entrepreneurship is built. From literature only SMEs that aim at innovations that can inject growth into the economy, improve the standard of living of the masses, provide employment and increase its own economic benefit can be referred to as entrepreneurship.

5. Conclusion and recommendations

This empirical study on disparity between small businesses and entrepreneurship in developing economies is based on Schumpeter theory of innovation. The findings show that there is a difference between small businesses and entrepreneurship but unknown to majority of the samples. However, there is a strong and positive relationship between the small businesses and entrepreneurship. Small businesses are drivers of individual's business initiatives and entrepreneurial behavior. Entrepreneurship is a subset of small businesses though not limited to it. Small businesses are the foundation on which most entrepreneurial organization is based. When small businesses becomes highly innovative, growth and profit-oriented it becomes entrepreneurship and would have significant impact on the economic growth of the nation. The study, therefore, recommends that

- Enlightenment campaign using media and slogans to sensitize the masses on what entrepreneurship is about as distinct from small businesses by Corporate Affairs Commission (CAC).
- CAC in collaboration with Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) to organize training and workshops for businessmen especially the self-employed regularly in order to re-orientate them on the principles and practices of entrepreneurship.
- Finally, education at all levels should be reinforced along the line of entrepreneurship by policy makers.

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