

# Small and Medium Enterprises (SMEs) an Entrepreneurship?

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## Abstract

*The inconsistent use of SME and entrepreneurship in the field of entrepreneurial business management has made the author to explore the discrepancy between SME and entrepreneurship studies. As a result, the paper distinguishes between SME and entrepreneurship by highlighting the similarities and differences between the two concepts. The paper concludes that entrepreneurship differs from SME in that entrepreneurship is a process leading to the creation of SMEs and business ventures while SME only represents firms or businesses in small and medium sizes.*

**Keywords** Research, entrepreneurial development, SMEs, Synonymous

## 1.0 Introduction

Both entrepreneurship development and SME have been globally acknowledged as instruments for achieving economic growth and development as well as employment creation (Rebecca & Benjamin, 2009). No wonder they have been given serious attention in many parts of the world as well as in the academic field. Countries such as U.S.A, UK, Malaysia, Indian, China, Singapore, Thailand, Vietnam and a host of others have continued to emphasize the importance of entrepreneurship development. to buttress this, Kuratko (2005) reported that there is no doubt that the field of entrepreneurship development has saved "wealth" up to the tune of \$440 million with above 75% of those funds collected as of 1987 in U.S.A. In country like Nigeria, the importance of entrepreneurship development cannot be undermined. Its contributions are quite obvious and visible in economic transformations (Rebecca et al. 2009; Kolawole & Torimiro 2005). This is why almost every successive government emphasizes it (Arowomole, 2000).

Similarly, studies have documented that SMEs account for about 88% of the small scale industries while 12% is credited to the medium industries in Malaysia. In Singapore alone, SMEs account for/employs half of the working population and consequently contributes about a third of the total value-added, forming 92% of their total number of the industrial establishments which include manufacturing, commercial and service sectors (Chea, 2009). Rebecca (2009)

reported that the small and medium scale firms have been increasing to the extent that they account for about 70% of the industrial employment while the agricultural sector tends to absorb over 60% of the country's workforce. Okpara and Wynn (2007) affirmed that SMEs contributes about 20% to 45% full employment and equally contributes about 30% to 50% to rural income which are mostly house-hold. Akande and Ojokuku (2008) noted that SMEs have greatly contributed in the creation of jobs, innovation and to economic growths which has been given a global acknowledgement and recognition. They further asserted that SMEs all over the world accounts for a greater percentage of industrial growth seen mainly in advanced countries. They argued that the capital needed, creation of jobs and nature of operations of SMEs have portrays them to be the focus point of the developmental efforts in less developed countries most especially in their capacity as the hub of developing. According to OECD (2009), SMEs and entrepreneurs play a crucial role in almost every nation's economy and as such have become a major source of employment creation and income generation which propels innovation and growth. OECD further noted that SMEs engage above half of the employees in the private sector. In the European Union alone, they accommodate above 99 % of all enterprises in which 91 % of these enterprises are said to be micro-firms having below 10 employees. This huge contribution makes SMEs indispensable for economic recovery.

However, one of the crucial issues that need to be addressed in the entrepreneurial business management domain is the alternative or synonymous use of the terms: entrepreneurship and SME. Past study has acknowledged that authors have used both SME and entrepreneurship interchangeably and alternatively in the course of their research work (Darren & Conrad, 2009) in which in actual sense are not the same. Although, SME and entrepreneurship tend to achieve the same goal, however both concepts differ considerably. Therefore, distinguishing between SME and entrepreneurship is crucial as both concepts are not the same (Darren et al. 2009). This may be confusing as findings in SME study might not be applicable to entrepreneurship. For instance, SMEs are just firms while entrepreneurship is just a process to establishing SME or business ventures. Darren et al. (2009) noted that the difference between SME and entrepreneurship is debatable. However, until this moment, no study has addressed this issue. Based on this, the paper aims at distinguishing between SME and entrepreneurship development.

## **2.0 Literature Review**

### **2.1 SME**

In this section, SMEs are examined within the perspective of firms and businesses and not their sizes or their economy importance or how many employees they can absorb. The term SMEs is an acronym for "small and medium scale enterprises". In this case there are firms or businesses which are small and medium in sizes. They are firms or businesses arising as a result of entrepreneurial activities of individuals. Several definitions and meanings of SMEs exist. This is due to their global diversity and characteristics (Darren et al. 2009). Arowomole (2000) affirmed that a single universally accepted definition of SMEs has not been easy as different countries have different criteria for defining SMEs. Adding that many countries have defined it in terms of

manpower, management structure and capital investment limit. He further noted that experts in this field have also contributed to the diversity in SMEs definitions. One crucial thing to note about SMEs definition is that certain criteria have been used to define what SME stands for most especially according to countries, sizes and sectors. Conrad and Darren (2009) explains that the main reason why SME definition varies particularly from industry to industry; county to country; size to size and number of employee to number of employee is to reflect industry, country, size and employment differences accurately. Baumback (1983) defined SME in terms of employment, asset value and dollar sales. According to Jasra, Khan, Hunjra, Rehman and Azam (2011), Small and Medium Enterprise (SME) represent a business and not a public limited company. They are businesses having not less than 250 workers in the case of manufacturing and service industries including trading businesses, and they should be able to meet any of the following conditions:

1. A trading / service concern having total assets at cost in which land and building up to Rs 50 million is not included.
2. A manufacturing unit having of total assets at cost up to Rs 100 million without land and building.
3. Any concern of service, trading or manufacturing with net sales less than Rs 300 million as per current financial statements.

The points highlighted above bear witness and demonstrate that the common criteria for defining SMEs include: employment, number of employees, size, industry, country, asset value etc. This is consistent with the findings of Darren *et al.* (2009). They contended that the most valid measures for defining SME are number of employees and size.

Generally, SME sector is categorized into three: micro, small and medium enterprises or businesses. The micro SMEs are the smallest among the three categories. According to Darren *et al.* (2009), they are the businesses that employ up to 9 employees in UK while in Australia; they employ fewer than 5 employees including non-employing businesses. U.S. Census Bureau which tends to categorize business micro business as "SOHO (meaning small office- home office), non-employer business and non-employee business (including business less than 5 employees). Therefore, micro-business should be seen as the small type form of SME that may employ fewer than 9 employees or on the other hand may not have employees at all. The small businesses are business bigger than the micro-businesses in terms of size, number of employees, structure, capital investment and economic contributions.

With regard to small businesses, several definitions of small businesses have been advanced over the years. Alarape (2008) defines it as "an enterprise with a labour size of 11-100 employees or a total cost of not less than N50 million, including working capital but excluding cost of land". The Nigerian industrial policy defined SMEs as industries with total investment of between N100, 000 and N2 million, exclusive of land but including working capital. One of the most popular definitions of SMEs is given by the American Small Business Administration (SBA) as that business or firm which is independently owned and operated; it is not dominant in its

field and meets the criteria for the SME business administration sponsored loans programme (Arowomole, 2000).

The Medium businesses as the name suggests are bigger than both micro and small businesses in terms of operations, manpower capacity or number of employees, structure, capital investment and size. According to Darren et al. (2009), they are the businesses that employ up to 249 employees in UK, in European Union, they employ up to 250 employees, in Australia, they employ up to 200 employees while in U.S.A, they accommodate up to 500 employees. In Malaysia, a new definition of SME has emerged. The National SME Council of Malaysia offered the following definitions in table 2.1 below.

### **New Definitions of SMEs by the National SME Council of Malaysia**

<b>Industry</b>	<b>Small</b>	<b>Medium</b>
Manufacturing, Manufacturing related services, and agro based industries.	Sales turnover of between RM250, 000 and less than RM10 million or 5 to 50 full time employees	Sales turnover of between RM10 to RM25 million or 51 to 150 full time employees
Services , primary agriculture, and information and communication technology	Sales turnover of between RM250,000 and RM1 million or 5 to 19 full time employees.	Sales turnover of between RM1million to RM5 million or 20 to 50 full time employees.

Adapted from Shehab (2008)

In Libya, the SME definition is defined according the criteria in Table 2.2 below.

### **Definitions of SMEs in Libya Malaysia**

<b>Criteria</b>	<b>Small</b>	<b>Medium</b>
Number of employees	<50	<250
Turnover in Libya Dinar (DL)	2 million	12 million
Total turnover as in the balance sheet (DL)	1 million	8 million

Adapted from Shehab (2008)

In Nigeria, much of the definitions on SMEs are concentrated on small firms leaving a gap in the definition of medium enterprises. Table 2.3 below demonstrates some of the definitions of small enterprises in Nigeria.

### Small Business Definitions in Nigeria

<b>Authors</b>	<b>Definitions</b>
Ogundele (2007)	Minimum of 5 employees with minimum capital outlay of not less than N5000.00 (\$33).
Osuagwu (2001)	Less than 50 but not greeter than employees in any situation with not less than N150,000(\$1000.00).
Arowomole (2000) Central Bank of Nigeria(CBN, 1991)	Capital investment not exceeding N5 million (\$33,333) excluding land and working capital with a turnover not more than N25 million (166,666) annually.
Administrative Staff cost of land College of Nigeria(ASCON)	Whose total cost is not more than N750,000.00(\$5000.00) including the total cost of land.
Obafemi Awolowo University	whose total assets in capita equipment, plant and working capital are less than N250, 000.00(1666.00) with fewer than 50 full time employees.
Nigerian Industrial Policy	Those with total investment of between N100, 000.00(\$666) and N2 million (\$13333.00) excluding land but inclusive of working capital

Compiled by the author from Ogundele (2007) and Arowomole (2000)

Within the global level, SME is being defined according to the countries and size as demonstrated in table 2.4 below.

**Table 2.4 International Definition of SMEs by Employees**

	<b>Small</b>	<b>Medium</b>
UK	business with up to 49 employees	business with up to 249 employees
European Union	business with up to 50	business with up to 250

	employees	employees
Australia	business with up to 5 or more employees but less than 20	business with up to 200 employees
USA	business with up to 100 employees	business with up to 500 employees

Adapted and modified from Darren et al. (2009)

## 2.2 Entrepreneurship Development

Darren *et al.* (2009) defined entrepreneurship as a process where an individual discovers, evaluates and exploit opportunities independently. Consistent with this, Ogundele (2007) sees entrepreneurship as a process involving recognizing opportunities in the environment, mobilizing resources to take advantage of such opportunities in order to provide improved goods and services for consumers and making as a reward for risk taken. Therefore, entrepreneurship is all about environmental opportunities that are waiting to be tapped.

Accordingly, Rebecca et al. (2009) explained entrepreneurship as a creative process of organizing, managing enterprises and assuming the risk involved in the enterprise. It is a process of creating something new and assuming the risks and rewards (Hisrich & Peters, 2002). There are four essential elements used in those definitions: creative process, risk taken, rewards, time and effort.

Awodun (2008) adopted the same approach in his effort to describe entrepreneurship; he saw entrepreneurship as an act of the followings:

1. Recognizing opportunities in your environment;
2. Mobilizing resources to take advantage of such opportunities;
3. Ensuring the provision of new or improved goods and services to consumers; and
4. Obtaining profit in return for the risk to dare.

Robert et al. (2008) noted that entrepreneurship is the creation of something new and assuming the risk and rewards. Entrepreneurship is therefore all about learning the skills needed to assume the risk of establishing a business and developing the winning strategies and executing them with all vigor, persistence and passion needed to win any game (Rebecca et al. 2009). The authors stressed the need for entrepreneurs/firm owners to learn new skills that would aid their firm's performance. Therefore, an entrepreneur must possess some skills if he is to achieve a significant firm performance. Rebecca et al., (2009) further concluded that entrepreneurship is simply concerned with what an entrepreneur actually does - the utilization of resources in managing an enterprise and assuming the risks and maximizing profit from the business venture. They affirmed that entrepreneurship is a dynamic process of creating wealth

for the well being of both the entrepreneurs and individuals in the society. Therefore, successful entrepreneurship requires that the entrepreneur possess certain managerial skills. These skills according to Rebecca *et al.* and Benjamin (2009) among others include ability to learn new techniques in handling business operation, ability to adapt to change and ability to handle changes in the environment.

From the above, it could be observed that authors have used one or more criteria to define the concept of entrepreneurship. Many stressed the need for learning new skills and techniques, recognizing opportunities, mobilizing resources, an act or process, rewards, taking of risk and creation of wealth. However, none has recognized the importance of nurturing entrepreneurship. Therefore, the definition of entrepreneurship can be better appreciated if the word “nurturing” was included. It can be seen as the process of nurturing entrepreneurship and 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 effective and efficient management of the business.

In the light of this, Arowomole (2000) defined entrepreneurship as the coming into existence (in a society or country) of the class of individuals, who are not timid to face odds and are ready to achieve a significant performance. To buttress this, Amit, Glosten and Muller (1993) defined entrepreneurship development as the process of extracting profit (firm performance) from new, unique and valuable combination of resource in an uncertain and ambiguous environment. Considering these definitions, entrepreneurship development, could equally be seen as a gradual process in which an individual takes in establishing a business or creating wealth for the purpose of making profit. This maybe in line with Amit *et al.* (1993)’s submission as both definitions are concern with the issue of profit, wealth creation and firm performance. Therefore, entrepreneurship involves the process of nurturing the actual or potential entrepreneurs to become more effective in running their own organizations. This involves ensuring how well the firm performs in its business operations and must be taught at various stages and in various institutions. From the ongoing, it is clear that entrepreneurship is a process and not SMEs. Thus, it is a process that leads to the establishment and creation of SMEs or business ventures. Entrepreneurship process leads to the birth of SMEs and business ventures in many sectors. It may be manufacturing, service, wholesale or retail.

### **2.2.1 Similarities**

Two major areas of similarities between SME and entrepreneurship are pointed out within the context of this paper. The first similarity is that, both SME and entrepreneurship aim towards the same objective. They both have been noted for employment creation, economic growth, economic development and economic transformation. They also play a significant role in socio-politico-economic transformation of national economy (Rebecca *et al.* 20029).

In addition, they are affected by the same factors. This implies that their success or failure is being determined by some set of similar factors. For instance, authors such as: Lucky (2011), Lucky and Minai (20011), Rebecca *et al.* (2009); William (2009), Zhang *et al.* (2008), Okpara *et*

al. (2007), Ogundele (2007), Colin, Gerard, David and Robert (2005), Kuratko and Hodgetts (2004), Blackman (2003), Dean, Bülent and Christopher (2000), Van de Ven (1993) and McClelland (1961) have all asserted that factors such as: environment, culture, location, individual characteristics, firm characteristics etc all affect both SMEs and entrepreneurship development. In the study of SME and entrepreneurship development, these factors cannot be neglected as they greatly determine the outcome of both concepts.

Furthermore, the SME owners (Owner-managers) and entrepreneurs tend to possess the same or similar characteristics or traits for business management. Both possess traits such as; Initiative (self initiated individuals), Perseverance (strong determination, patience), Emphasis on diligence, Commitment to agreement/contract, Orientation towards perseverance (patience) , Systematic Planning, Creative problem solving, Self-confidence, Firm, Convincing, Use of Influencing strategy (ability to be able to influence other people), Commitment, determination and perseverance, Drive to achieve success, strive for growth and expansion, personal responsibility, Integrity, reliability, and ability to Seek and use feedback (Rebecca et al. 2009, William, 2009, Ogundele, 2007). This list is by no means exhaustive. These traits have assisted both SME-Owners (Owner-Managers) and entrepreneurs to effectively and successfully excel in their various endeavors.

### **2.2.2 Differences**

Both entrepreneurship and SMEs have on many occasions been used interchangeably (Darren et al. 2009), that is, each of this concept has been used synonymously. Darren et al. (2009) noted that SME firms have been generally used as a proxy for entrepreneurship. However, this is wrong as both concepts differ considerably in many areas. First and foremost, entrepreneurship is crucial to point out that not SME and SME is not an entrepreneurship. Entrepreneurship is a process that leads to creation of SMEs while SME are just firms or business ventures that are being managed by individuals or Owner-managers as they are often called. Therefore, in terms of purpose, entrepreneurs discover, innovate and establish businesses. They seek for and discover business opportunities, and then exploit these business opportunities whereas the SME-Owners capitalized 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.

In addition to this, they also differ in terms of the different and special skills used by entrepreneurs and SME Owners. They both seem to possess different and unique skills. For instance, the entrepreneur possesses the skills to discover and innovate which allow him to always seek for new businesses or ventures whereas the SME-Owners possess the managerial skill that enable them to effectively and properly manage their firms or businesses without much problem. To clearly substantiate their differences, table 2.5 below offers more details.



**Table 2.5 Differences between entrepreneurship and SMEs**

	<b>Entrepreneurship I</b>	<b>SMEs</b>
Definition	Process where an individual discovers, evaluates, and exploits opportunities independently	Firms or business ventures manage by individuals owners
Size	Large, Medium or Small	Small and Medium only
Number of people involved	small to large	Small
Purpose	To discover, innovate and establish	To produce, buy and sell
Degree of risk	Varies	Lower
Sector	Private, government and not-for-profit	Private sector only
Key attributes	High need for: achievement; internal locus of Control; creativity and innovation; growth	Organizational skills to manage efficiently, little innovation, moderate growth, moderate need for Achievement
Growth Focus	High	Varies

Adapted from Darren et al. (2009)

### **3.0 Conclusion**

This paper examines the differences and similarities between SMEs and entrepreneurship development; it particularly, distinguishes between SMEs and entrepreneurship development. Both SME and entrepreneurship have been acknowledged to be important tools for economic transformation and economic growth of a country. In this, they are believed to aim at the same objective. On this note, it is clearly pointed out in this paper that SME are firms that engaged in one form of business or the other. In terms of size, they are classified into small and medium and their definition vary according to countries, industries, number of employees and asset value. On the other hand, entrepreneurship is a process of creating SMEs or business ventures which are later seen as small and medium sizes of firms or businesses. Thus, this paper reveals that entrepreneurship is a process and not SME. On the other hand, SMEs are firms and not entrepreneurship. Based on this, the paper draws conclusion that SME is different from entrepreneurship. Although both may tend to achieve the same objective, however, they differ according to definition, function and purpose.

The contribution of this paper is very obvious, distinguishing between SMEs and entrepreneurship is a huge benefits to the researchers, particularly the PhD students who are still very new in these areas. Theoretically, the paper advances knowledge in the areas of SME and entrepreneurship domains. Finally, it is hoped that future research should extend the arguments in this paper in order to make clearer the gap between SME and entrepreneurship in these domain.

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