

Why Self-Employment Entrepreneurship is Worth Less to Less-Developed Countries

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ABSTRACT

Developing countries have been advised to promote small enterprises because they generate employment. It is even said that small-enterprise jobs cost less than jobs created in larger enterprises. Governments have invested a lot of funds in the training of entrepreneurs and in financing their small enterprises, in most instances, to the exclusion of promoting large enterprises. But, is this the most optimal strategy? Some researchers do not think so. Large enterprises, through corporate entrepreneurship and intrapreneurship, are better able to innovate, create more lasting jobs; and should their employees set up their own enterprises, these tend to create more jobs and their survival rates are higher. In this era of globalization, it is important to attract into countries, enterprises that are good at both technology and product innovation. It is such enterprises that determine the growth of economies. Small-enterprises are initially imitators before they are innovators. So, economies with few or no large enterprises, lack adequate innovation, hence, will lack adequate growth. The study is conceptual, and reviews the relevant literature on intrapreneurship, corporate entrepreneurship and self-employment entrepreneurship. The following conclusions are highlighted:

1. Due to globalization, corporate entrepreneurship and intrapreneurship provide better opportunities for innovation and growth than self-employment entrepreneurship;
2. Developing countries need to increase investment into general human capital development;
3. Promotion of larger enterprises will enhance the development of specific human capital;
4. This strategy will improve the development of both nascent intrapreneurship and nascent entrepreneurship. These strengthen both the large corporate sector and the small-scale sector.

Keywords: Intrapreneurship, entrepreneurship, innovation, capital, transformative.

INTRODUCTION

Most African economies have performed poorly compared to all other regions in the world. Of late, large population economies, like India and China, have taken-off, demonstrating that it is not population that is a problem. Even the Latin American countries, known for experimenting with several development strategies, seem to be quietly exploiting the fruits of innovation and growth. The Middle-east, a region not known for resource-endowment other than oil, has overtaken Africa in most metrics. The few sparks that did show, mostly in North Africa, seem to be extinguished, while South Africa, though

industrialized to some extent, largely exhibits similar symptoms to those of Sub-Saharan Africa.

It appears that the entire world is finding solutions to their problems of poverty from technology and innovation to the exclusion of Africa. Even upper middle-income countries, like Botswana, seem trapped in some vicious sort of underdevelopment defined by chronic unemployment. The Botswana National Human Development Report (2014), reports that the highest proportion of employment in Botswana is in the lowly-productive agricultural sector, which according to the 2005/06 Labour Force survey employed 30% of total labour. The most productive sector, mining, employs only 5% of the workforce while manufacturing employs only 7%. The problem with the Botswana scenario is that mining is capital-intensive, while the agricultural sector is shrinking due to its low productivity and low wages.

The problem for most of these African countries is to identify economic policies and strategies that can spur and sustain growth which can be translated into development at the pace similar to that in the Asian economies. Such policies and strategies should attract Foreign Direct Investment, which is a *sine qua non* for innovation.

The objective of this paper is to ask questions why most Sub-Saharan African countries are failing. There are obvious cases like that of Zimbabwe, which seems to continually commit economic *hara-kiri*. However, there are many, who have been slogging on the path of development for close to fifty years with very little to show for it. Are these countries following the right policies and strategies? Are there any right policies and strategies that can be pursued? This is conceptual paper which will endeavour to:

- Review some entrepreneurial development theories;
- Highlight the popularity SME development policies in these countries;
- Highlight an alternative strategy;
- Make conclusions and recommendations.

Background Scenario

At independence in 1980, Zimbabwe was arguably one of the Southern African countries with the most potential. The fifteen years preceding independence were difficult years for the country due to the war and economic sanctions imposed on the illegal minority regime of Ian Smith. Despite these problems, the country emerged into independence with a relatively significant industrial sector backed by a very strong agricultural base, albeit, a racially polarised one.

A carry-over from the sanction days was lack of foreign currency badly needed to refurbish machinery and equipment that had aged without replacement. Industry also needed vital raw inputs in order to expand to satisfy the larger domestic market and possibly to export. Even though the global world had opened for the new Zimbabwe, it seemed that the country would never receive sufficient foreign direct investment to tilt the balance in financial flows inwards and outwards. Exports continued to shrink while imports ballooned. The new government, unfortunately, did not have a clue on how this vital balance could be achieved. As if this was not enough, there seemed to be a lot of leakages of the little foreign currency generated in the system. These leakages seemed to have been government-engineered since there was no effort to plug them. The more this happened, the less foreign direct investment the country received. As an example, the funds promised by the British Government to purchase land for resettlement by blacks dried up.

The land question was always the threat for Zimbabwe, however, had industry expanded fast enough to create employment and absorb the growing youth population; there would have been ultimately less pressure on the demand for land. Due to the lack of new investment into industry and shortage of foreign currency, existing industrial firms started

folding up, which worsened the balance of payments problems and the level of unemployment. This forced the growing unemployed to seek alternative sustenance from the land. This, in turn, forced land invasions, which the Government initially resisted. But, realizing that there was no alternative, Government joined the land invaders for fear of losing power. This, as is well known, destroyed also the remaining 'golden egg', the agricultural sector. One commentator stated that Mugabe pauperized 90% of Zimbabwe's population with 90% of the population now living on less US\$1 per day (Munayiti and Mushava, 2015, October 23).

It is said that pre-independence industrialists were quite innovative; otherwise the economy would have collapsed during the sanction days. These innovative industrialists must have either lost steam at independence or lost the motivation. The new government had no clue as to re-ignite either, or to usher-in new indigenous industrialists; hence, de-industrialization continued spiralling. This is how a basket case was developed. What strategy can reverse such a disaster?

THEORETICAL FRAMEWORK

Venkataraman (2004) distinguished Schumpeterian entrepreneurship from low-quality entrepreneurship. Low-quality entrepreneurship results in most developing countries when governments attempt to promote technological entrepreneurship and development through risk capital injection. As is happening in Botswana and many African countries, the government distributes funds to citizens through small business development centres. There are even public venture funds doing the rounds to assist entrepreneurs. The assumption by the governments, according to Venkataraman (2004), is that risk capital will create all other pre-requisites for growth. According to Venkataraman (2004), if this risk capital is to produce the extra-ordinary growth required by most African countries, it must be accompanied by seven other intangibles, including, access to novel ideas, role models, informal fora, region-specific opportunities, safety nets, access to large markets, and executive leadership (Venkataraman, 2004:153). As is obvious to all, most African countries do not have all these intangibles.

Human Capital Theory

Becker (1964) distinguished between "general" and "specific" human capital. General human capital comprises skills, knowledge, experience and capabilities useful in a multitude of productive uses. These capabilities are embodied in formal education, and they could be useful in both existing organizations and in new venture creations. Specific human capital, in contrast, refers to skills, experience, knowledge and capabilities, such as those imparted by firm-specific training programmes, which are primarily useful to the organization which provides them.

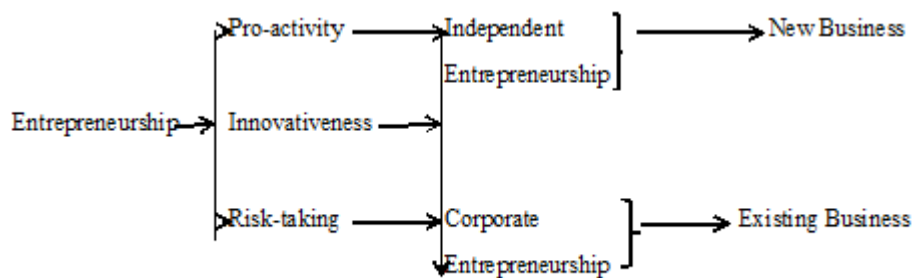
Employees, as products of both general and specific education, can identify venture opportunities that can be exploited either inside or outside the firm. The greater the employees' general human capital, the greater is their capability to exploit the opportunity outside the firm. This was termed nascent entrepreneurship (NE) by, among others, Zucker, Darby & Brewer (1968). On the other hand, an employee's specific human capital can affect the development trajectory of a new idea culminating in an innovation which is complementary to the internal organization of the firm, hence more valuable if exploited within it. This is nascent intrapreneurship (NI). There are reasons why new opportunities might be NE as opposed to NI: (a) agency costs, which affect contracting between employees and employers; (b) quantum of transferable human capital and limited asset complementarity within existing firms; (c) organizational limitations of incumbents, such as bureaucracy and

rigid routines (Henderson, 1993; Anton & Yao, 1995; Klepper, 2001; Helfat & Lieberman, 2002).

The relevant question to ask in relation to African countries, with respect to NE and NI, is: which of the two contributes more to growth and development?

Both these concepts are embraced in entrepreneurship, which comprises the location of opportunities marshalling resources for the purposes of creating and managing businesses (Kourislsky, 1995). The dimensions for the practical expression of entrepreneurship (as demonstrated in Figure 1) are the exercise of pro-activity, innovation and risk-taking. Some new businesses are entrepreneurial while others are not. Also, large businesses could be entrepreneurial if their employees are innovative, pro-active, and motivated to take calculated risks.

Figure 1: Practical Expression of Entrepreneurship



Source: Akintunde, 2013.

The question posed above can be rephrased: does entrepreneurship through self-employment contribute more than entrepreneurship through intrapreneurship? In other words, in terms of job creation, self-employment would be held to have contributed more if net jobs are positive and higher than net jobs gained in existing firms. Net jobs in self-employment is the difference between jobs created and jobs lost through firm closures, while net jobs in existing firms is the difference between new jobs created through expansion and job losses through retrenchments. Since economic growth results from increased productivity of resources, there is economic growth if new firms created through self-employment are able to make more efficient use of resources than the expansion of existing businesses run by intrapreneurs.

Let us return to Venkataraman (2004) as he highlights the nature of transformative entrepreneurial activity. He states that most developing societies are characterized by cultures that celebrate and depend on tradition. Governments and their ruling parties tend to promote the notion that centralises all activity in the country on their plans. The most talented people are directed into positions they are rewarded without taking bold bets. We often see the most talented in Africa being absorbed into the ruling parties and government. This results in situations where unconventional ideas, companies, projects, and products do not emerge. People who become entrepreneurs under these circumstances do so as a last resort (Venkataraman, 2004:154). They may be unemployed, underemployed, handicapped, or indeed rejects of the political system. The efforts of such people generally result in low quality enterprises. Taking it from the human capital perspective, it could be people with just mere general education, and perhaps very little resources.

Under these situations, the wealthy favour investments into real estate and gold, funds for entrepreneurs are not provided by venture capitalists, or other risk capital investors, but by governments, who shun bold ideas and the risks that accompany them. The recipients of such

funds would enter into franchising, household services, retail or corner grocery stores, restaurants and other imitative products and services (Venkataraman, 2004).

The week starting 26 April, 2015, saw the Southern African Development Community (SADC) countries convening an Extra-Ordinary Summit on the industrialization of SADC countries in Zimbabwe's capital of Harare. The chairman of that Summit was the President of Zimbabwe, whose ruling party and Government has presided over a shrinking industrial economy over 35 years. Zimbabwe has done all in its power to destroy industry, including measures like increases in corporate tax, destruction of financial and capital markets, failure to maintain infrastructure like telecommunications and transportation, and nationalization, including legislating for indigenous take-over of viable industries. Transformative entrepreneurship thrives on favourable legal systems, capital markets, and other infrastructure facilities. How does Zimbabwe plan to reverse a legacy of economic destruction and flight of international capital and be a leader of industrialization in SADC? How do economies like Botswana, Lesotho, Namibia, and Swaziland break what Venkataraman (2004) termed the "vicious cycle", when under the strictures of the Southern African Customs Union, they cannot establish any industry, rather, their governments can only concentrate on promoting small businesses? How do you expect to attract Foreign Direct Investment into a country like the Democratic Republic of Congo, with endemic civil wars? How does a country with extremes of poverty and wealth, still divided by race as South Africa is, hope to continue grow industry and even assist its neighbours to industrialize? What new industrialization strategies are possible in such a SADC?

This region is trapped in a vicious cycle: great ideas and bold bets cannot and do not emerge (Venkataraman, 2004:160-1). The best talent in this region has been moving into occupations where taking major risks and bold bets is not held in high esteem. Success is defined by the standards of politicians and the dominant non-developmental institutions like the De Beers of this region. How do we expect De Beers to lead in the beneficiation of diamonds? New ideas, new companies, projects and products that are risky, but transformative, will not emerge. There cannot be risk capital, no venture capital since the so-called "angels" know that the region does not possess good enough deals with the right risk-reward potential. The region's wealthy people would rather spend their funds on scarce items like real estate, Swiss accounts, or more guaranteed investments than risky local industrial ventures. Risk capital simply dries up or emigrates.

Breaking the Vicious Cycle

As pointed out above, government should try to avoid resorting to a single solution to break the vicious cycle: risk capital injection through small business development centres. Injection of this risk capital, as is happening in most developing countries, including the SADC countries, results in the capital flowing to low-quality entrepreneurship. Most researchers, including Venkataraman (2004), advocate for multiple and simultaneous solutions to break the vicious cycle. Risk capital should be accompanied by novel ideas, role models, informal forums (fora), region-specific opportunities, safety nets, executive leadership and access to large markets (Venkataraman, 2004).

Novel ideas originate from bright and knowledgeable individuals found in great institutions. Talent congregates in great institutions. Across the world, it is regions with superior Universities and R&D laboratories that have been creating technological entrepreneurship. Areas around Boston and the Silicon Valley in the United States have been prime movers in this. It should be possible for each region and country to create similar institutions. Where a great mass of young people are enabled to study and research, technological entrepreneurship usually results. In countries like India, Mexico, South Korea,

and China, extra-ordinary talent has gone in search of extra-ordinary institutions abroad, instead of the local universities (Venkataraman, 2004).

Success in regions is spurred by the extra-ordinary people setting up and demonstrating that it can be done. The existence of proof breaks that veneer that it is impossible. These become role models. In developing countries, these role models could start as employees in large corporations, and then later set up independently. Even the simple demonstration effect by a firm can spur the youth and new graduates to start their own. Akintunde (2013), arguing for what is termed the intrapreneurship development option, points out that as enterprises grow, different skills are required to ensure growth and development. Such skills are usually learnt in existing businesses. Hence, intrapreneurs are better placed to gain practical experience that can be applied to future self-employment entrepreneurial ventures. Most undeveloped regions do not have these large businesses with role models.

Access to role models mostly occurs in informal forums, like bars and restaurants. This highlights the need for large concentrations of learning institutions, R&D centres, or industrial hubs with significant populations of enterprising people, keen to throw ideas around. In the developing African countries, talented individuals are found in isolated mining areas and the cities are bereft of industrial hubs. Universities are usually in these towns where interaction with industry is non-existent. Informality is important in that inhibitions are lowered, which encourages face-to-face ideas exchange (Venkataraman, 2004).

In most regions that aspire to develop, political and bureaucratic leaders of a region seek to work with technologies that already have been successful elsewhere. They copy successful products, technologies and industries. But often, it is too late as they are chasing yesterday's news. People usually forget that sustained success often comes when it is based on some special ingredient offered only by the region. This could be the region's core competence, natural resource, or some regional advantage. However, these can only be successfully exploited when there are individuals similar to the youth in universities and meeting informally with those in industries and freely debating issues (Venkataraman, 2004).

For Schumpeterian entrepreneurship to succeed, both entrepreneurs and the general public need to realize that failure is not fatal. Attempts at novelty are always accompanied by failure. Unless there are mechanisms to address this failure, new trials will dry up. Safety nets for entrepreneurs is a mechanism necessary to address the fears potential entrepreneurs will have, and safety nets assist in the development of a culture of trying new things. In places like Silicon Valley, Bangalore (India), and Israel, many opportunities exist for entrepreneurs after they have tried something that has not been successful. For example, there are jobs in companies these entrepreneurs used to work, even better ones. This removes the stigma of a failed entrepreneur which works as a safety net, and had the effect of encouraging more people to venture into untried areas (Venkataraman, 2004).

A natural advantage is created in large densely populated centres, since they are natural laboratories for testing and introducing new ideas cost-effectively. The large populations provide both a potentially large pool of entrepreneurs and economies of scale for products. There is also what is termed exit markets for investors to enable them to easily liquidate their investments in risky enterprises. Risk capital dries up where there is no access to exit markets. Where these are lacking, both physical infrastructure and intangible social network infrastructure is vital for easy access to neighbouring larger population centres (Venkataraman, 2004).

For technological entrepreneurship to flourish, we need *executive leadership*, not necessarily visionaries. Executive leadership is that kind of leadership that rolls up the sleeves and does the grunt work. These are the people that ensure that the talented youth and citizenry have (1) access to institutions that produce new knowledge; (2) access to capital; (3)

access to the right role models; (4) the necessary informal forums for entrepreneurial education and experience; (5) the necessary safety nets and the culture accepting failure; and (6) access to gateway cities and large markets for their products and services (Venkataraman, 2004:165).

EMPIRICAL FRAMEWORK

Interest in the role of Small and Medium Enterprises (SMEs) as agents of development is now widespread. There is even a “developmental approach” to SME promotion, whose objective is the creation of “economically viable enterprises which can stand on their own feet without perpetual subsidy and can make a positive contribution to the growth of real income and therefore to better living levels” (Stanley & Morse, 1965:318). The majority of developing countries have attempted to be true to this developmental approach, some with a higher level of success than others. It is, however disappointing that the success of African countries, in general, and SADC countries, in particular, in this area, has not been significant. It appears that if these countries continue along this path, we will wait for take-off for a very long time.

Generally, in relation to economic growth, firm productivity increases with firm age. The average new firm makes worse use of resources than the average existing firm. In most countries, there is a high death rate of start-up firms, and due to this high death rate, these start-up firms are unlikely to make-up for the poor productivity since they are likely to be dead within 5 years. There are contradictory views on whether or not new businesses founded by self-employed entrepreneurs create more jobs than established firms. The US Bureau of Labour Statistics shows that only 7% of jobs created in 2004 were created by new firms. Knaup (2005), analysing data from the US Bureau of labour Statistics, found that the number of jobs lost by new firms that close down in subsequent years exceeds the number of jobs added by the expansion of the new firms that survived. In terms of job quality, Wagner (1997), in a Germany study, found that jobs in new firms pay less, offer worse fringe benefits and provide less job security, than jobs in existing firms. While this data is for a developed economy, one might suspect a worse scenario for developing countries, which calls to question the efficacy of promoting SMEs, *per se*.

If the goal is to promote innovation through new product creation, increasing the number of small businesses is not the most direct route. Relative to larger firms, self-employment or small businesses, is not a cost-effective way to stimulate job growth, given the high failure rates of small and young firms (Akintunde, 2013).

The Intrapreneurship Development Option

Different skills are needed for growth and development of an enterprise from those required to conceive and launch a business. Such skills are usually acquired in an existing business. This explains why intrapreneurs are better placed to gain practical experience that can be applied to future self-employment and entrepreneurial ventures.

Mehralizadeh & Salady (2000) argued that the majority of successful new business owners set up in industries in which they had been previously employed. For developing countries, McPherson (1996) found a positive relationship between annual employment growth and previous experience of the founder in similar economic activities for entrepreneurial firms in Botswana and Swaziland.

Larger Corporations provide advantages to intrapreneurs in the aspects of opportunity recognition, marshalling of resources, and in that of creation and management of business. For opportunity recognition, they receive services of well-founded and staffed R&D

departments, established networks. They gain experience in the course of working in standard environments, which are available to intrapreneurs, but not self-employed entrepreneurs. Intrapreneurs have access to corporate financial resources, which are substantial compared to small businesses. The larger corporations have a greater ability to obtain services of experts in the areas business creation and management (Kourilsky, 1995).

Edmiston (2010) stressed that it is the progressive and innovative business that creates jobs. It is large firms that have the larger potential to innovate, hence contribute more to economic growth and development. Nooteboom (1994) notes that the fact that poorer countries fail to benefit from entrepreneurial activities does not imply that entrepreneurship should be discouraged in these countries. Instead, it may be an indication that there are not enough large companies in those countries that enhance innovation, economies of scale, and economies of scope. It can, hence be concluded that, establishing large enterprises provides an opportunity to develop intrapreneurs, who can create expansion in existing businesses, and are more likely to create new businesses that would last and create more stable jobs as independent entrepreneurs.

DISCUSSION

This conceptual paper attempted to explain why African countries regress in the race for growth and development. A worst case scenario of Zimbabwe introduced the discussion. SADC governments are aware of the problem as demonstrated by their urgent special summit on industrialisation in April 2015. Just a week prior to that conference, there were xenophobic killings in South Africa, the most developed of these countries. Africans leave their countries in search of opportunities, and since the early 1990s, the destination has been South Africa. Yet black South African citizens do not seem to have benefited from its development, hence, the xenophobic attacks.

The majority of these African country governments spend a lot on the development of small businesses in an effort to develop entrepreneurship. Some, like Botswana, have consistently done so for close to fifty years. But the growth experienced does not seem to be sustainable. For most of these countries, there has clearly been de-industrialisation. However, for all of them, there is high unemployment (exceeding 20% for those doing relatively well, to as high as 90% for countries like Zimbabwe).

Following the human capital theory, it can be confirmed that most of these countries have done well in developing their general education. It can easily be concluded that general human capital has been developed. This is an adequate pre-requisite to the establishment of new ventures. Indeed citizens in most of these countries have been clamouring for support to establish their own enterprises, and governments have responded in kind. Still, this has not led to the desired growth and development (as yet), as witnessed by the large unemployment rates. In fact for most of these countries, there is still the 'vicious' cycle described by Venkataraman (2004), as opposed to the 'virtuous' cycle. There is no risk capital. Most of the countries cannot attract Foreign Direct Investment. Most major capital projects that are done, although executed by foreign companies, are financed by the government. These foreign companies also assist in the emigration of risk capital as they repatriate most of the locally generated profits. Funds going to locals shun bold ideas but enter services and retail sectors. These are low quality enterprises whose promoters are wrong role models, in so far as innovation is concerned.

Most of these countries lack large industrial enterprises, except for South Africa. These South African enterprises, though imperialistic, have adopted an export strategy, as opposed to an investment strategy. We see South African supermarkets, filling stations, franchises, and not industrial branches. In fact, most are de-industrializing in Zimbabwe.

South Africa was instrumental in the closure a car assembly plant in Botswana, yet automobile franchise outlets dealing in South African cars are increasing.

In countries that grow and develop, there are both small and large industries. India and China were known as countries of micro and small industries. But they shifted from promoting only these to attracting and supporting large enterprises. Large enterprises are capable of Schumpeterian disruptive innovation. The reason seems to be their ability to develop specific human capital and generate intrapreneurs. Large enterprises are capable of investing risk capital in productive activities leading to what Venkataraman (2004) termed the state of 'virtuous equilibrium'. Africa's lack of, and failure to attract large enterprises, can explain its failure. Governments should limit financing of large infrastructural projects, but rather embark on Public-Private Partnerships and Project Financing, which require large foreign companies to spend their own money and even run these public facilities on completing the projects, for some time. They should extend these partnerships to purely private enterprises. Africa's preoccupation with small businesses, to the exclusion of large ones, perpetuates the vicious cycle of poverty (Venkataraman, 2004).

CONCLUSION AND RECOMMENDATIONS

The following conclusions and recommendations can be made:

1. Due to globalization, corporate entrepreneurship and intrapreneurship are more important to innovation and growth than self-employment entrepreneurship;
2. Developing countries need to increase investment into general human capital development;
3. Promotion of larger enterprises will enhance the development of specific human capital;
4. This strategy will improve the development of both nascent intrapreneurship and nascent entrepreneurship. These strengthen the large corporate sector and the small-scale sector;
5. Further, the strategy contributes more to innovation and generation of lasting employment;
6. Governments can further enhance the attraction of large enterprises to their countries by embarking on Public-Private Partnerships (PPPs) and Project Financing, rather than wholesale financing of infrastructural projects.
7. Risk-sharing through PPPs should be extended to private enterprises.

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