Reflecting on the Entrepreneurship Paradox in Sub Saharan Africa

Charles Mwatsika

1 Lecturer in Entrepreneurship, Department of Management Studies, Malawi University of Business and Applied Sciences (Malawi)

Abstract:

Entrepreneurship is a strategy for economic growth and it is perceived to be higher in developing countries. But other scholars found that it does not bring economic growth in developing countries. The purpose of the study was to reflect on this paradox in Sub Saharan Africa from neoclassical economic theory where entrepreneurship is perceived as carrying out innovations. A cross-sectional survey of enterprises was undertaken in Malawi to measure values of new products, new methods of production, new markets and new enterprises. Comparison of mean values and 2 independent samples tests were used to analyse innovations carried out, types of entrepreneurial enterprises and their prevalence. The study found that carrying out innovations among enterprises in Malawi is low. Opportunity-motivated, growth-oriented and limited liability enterprises are entrepreneurial types of enterprises but there were very few. Therefore the paradox depends on the theory which guides the understanding of entrepreneurship. The classical economic perspective reflects the paradox while the neoclassical economic perspective does not. The study contributes to knowledge on the types of entrepreneurial enterprises and that the paradox depends on the understanding of entrepreneurship. The findings
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imply that entrepreneurship is ineffective for economic growth in developing countries because of a lack of carrying out innovations. Therefore, the understanding of entrepreneurship in developing countries needs to be adjusted to neoclassical economic theories so that policy focuses on supporting entrepreneurial enterprises for entrepreneurship to be effective for economic growth, ceteris paribus.

**Keywords:** Business Start-up, Economic Growth, Entrepreneurship Paradox, Innovation.

**JEL Codes:** L26.

1. Introduction

Some of the reasons entrepreneurship attracts scholarly inquiry in developing countries are its widely accepted importance in economic development and the perceived Entrepreneurship Paradox, hereafter called the paradox. Studies show that entrepreneurship brings about economic growth and creates jobs (Lee & Xin, 2015; Decker et al., 2014). It is thereby one of the commonly stated strategies for economic development in both developing and developed Organisation for Economic Cooperation and Development (OECD) countries (OECD, 2010; Wekwete, 2014). For instance, the Southern Africa Commonwealth Local Government Forum (CLGF) recommended the adoption of Local Economic Development (LED) and entrepreneurship as a key strategy for attaining economic growth in Southern Africa Development Community (SADC) (Wekwete, 2014).

There are however contradictory levels of entrepreneurship and perceptions on its effect on economic growth between developing and developed countries. The Global Entrepreneurship Monitor (GEM, 2018) and the International Labour Organisation (ILO, 2015) using total early-stage entrepreneurial activity (TEA) rate and self-employment rate respectively, show higher levels of entrepreneurship in developing countries than developed countries. But Zaki and Rashid (2016), Stam and van Stel (2009) and van Stel et al. (2005) found a negative relationship between entrepreneurship and economic growth in developing countries even though entrepreneurial behaviour is higher. Lafuente et al., (2018) and Bell (2013) refer to this contradiction as the paradox.

Poor environments for business are considered the main reason for the existence of the paradox (Lafuente et al., 2018). Doing Business report of the World Bank Group (2020) highlights binding constraints which inhibit micro, small and medium enterprises (MSME) sector growth in developing countries. However, the problem is that poverty, unemployment and poor economic growth persist despite decades of effort to improve the
environments for business, entrepreneurship and MSME sector growth in some Sub Saharan African countries (Meressa, 2020; Cassim et al., 2014). In Malawi for example, efforts have been undertaken to establish institutions and improve the environment for businesses to grow the MSME sector since the early 1980s (Masten & Kandoole, 1997). The TEA rate is high (Dalious et al., 2012) but Gross Domestic Product (GDP) growth is low (Macroeconomic trends, 2021) and poverty and unemployment levels remain high (GOM, 2017). This reflects the existence of the paradox and thereby supports empirical studies which found that entrepreneurship does not bring economic growth in developing countries. It further highlights that other factors influence the effect of entrepreneurship because some improvements are noted by the Doing Business report (World Bank Group, 2020) in some Sub Saharan African countries but the paradox persists.

Entrepreneurship has multiple perceptions grounded in both classical and neoclassical economic theories. From the classical economic perspective, entrepreneurship is starting a business or being self-employed (GEM, 2018; ILO, 2015) whereas from the neoclassical economic perspective, it is identifying entrepreneurship opportunities and carrying out innovations that ignite economic change (Shane & Venkataraman, 2000; Schumpeter, 1934). The former reflects the paradox. However, it is the neoclassical economic perspective that places entrepreneurship at the centre of economic development theory (Schumpeter, 1934). Although there is knowledge about high TEA rates in developing countries (GEM, 2018), which provides the classical economic perspective, there are knowledge gaps on entrepreneurship undertaken from the neoclassical economic perspective, carrying out of innovations. Sheriff et al. (2016) assert that there is a lack of knowledge about types and rates of entrepreneurship undertaken in developing countries. As a result, there are no reflections on the paradox from the neoclassical economic perspective.

The purpose of the study was therefore to reflect on the paradox from the neoclassical economic perspective while holding the influence of the environment for business on entrepreneurship constant. It is important to note that entrepreneurship is promoted and supported in Sub Saharan African countries but not many studies are conducted to assess entrepreneurial activities and innovations carried out to reflect on the productivity of entrepreneurship and its contribution towards economic development. Specifically, the study assessed entrepreneurial activities undertaken by different types of enterprises and analysed innovations created and their values to determine the prevalence of productive enterprises.
The study is important because entrepreneurship is a strategy for attaining economic growth in most Sub Saharan African countries. Therefore reflecting on the paradox is necessary in order to find ways of making it effective apart from focusing on improving the environments for business. Furthermore, inquiry on the paradox is necessary because, firstly, accepting its existence is acknowledging that what is undertaken in developing countries is entrepreneurship which is expected to ignite economic development and its failure to do so is thereby a contradiction between theory and empirical evidence. However, Henrekson and Sanandaji (2014) and Shane (2009) have commented that what is perceived and undertaken as entrepreneurship in developing countries is not all entrepreneurship in the modern meaning of the concept. Secondly, accepting the paradox is acknowledging that indicators that show higher levels of entrepreneurship in developing countries are appropriate measures of the concept when Ahmad and Hoffman (2007) acknowledge that none of the indicators capture entrepreneurship either conceptually or empirically. Thirdly, accepting the paradox is conceding to disregard the theory that entrepreneurship brings economic development, and therefore it should not be pursued as a strategy in developing countries when in practice, countries in Sub Saharan Africa continue to consider entrepreneurship a strategy for attaining economic growth (Wekwete, 2014).

The study intended to respond to questions and contribute to knowledge about entrepreneurial activities undertaken in Malawi, types of productive enterprises that require support to contribute more towards economic growth, and the position of the paradox from a neoclassical economic perspective. The paper is presented as follows. First, a review of the meanings and indicators of entrepreneurship is presented followed by the methodology used to conduct the study. Thereafter the results are presented and discussed before a conclusion is drawn on the implications of the findings, limitations of the study and areas for future research.

2. Literature Review

2.1 Understanding of Entrepreneurship and Study Hypotheses

Entrepreneurship is a popular concept but it is inconsistently defined by scholars even though it is grounded in the same classical and neoclassical economic theories. Cantillon (1755) originated the term entrepreneurship referring to activities of individuals who are alert to market discrepancies and procure raw materials at certain prices to rework them up and resell at uncertain prices for a profit. These individuals are mostly self-employed and
are perceived to undertake risks on capital employed especially because of the uncertainty of future resale prices. Say (1816) improved the explanation of entrepreneurship to mean the coordination of factors of production (capital, land and labour), to produce goods and services, which is interpreted in two distinct ways by scholars. Firstly, coordination of factors of production is interpreted as superintendent of the factors in the production process thereby entrepreneurship is a management function (Leibenstein, 1968). Secondly, coordination of factors of production is interpreted as uniting factors to create the organisation which produces goods and services. From these two prominent classical economic theorists; Cantillon (1755) and Say (1816), entrepreneurship is commonly defined as founding or creating a new organisation or business (Scarborough, 2013) and management of an enterprise or self-employment which involves risk (ILO, 2015; Leibenstein, 1968). However, self-employment does not capture the essence of the concept.

Neoclassical economic theorists, Schumpeter (1934) and Kirzner (1973) brought a new dimension to the meaning of entrepreneurship. First, Schumpeter (1934) places entrepreneurship at the centre of his theory of economic development as the function through which innovations are created. He theorises that innovations create new disequilibrium in the markets and thereby ignite economic development when the economy reorganises towards the new equilibrium. Although Schumpeter (1934) acknowledges that economic development would come from undertaking improvements over time, he asserts that his theory refers to discontinuous innovations as a source of economic development. Second, Kirzner (1973) is accredited for putting forward the meaning of entrepreneurship as the perception and exploitation of opportunities brought by innovative change. While Schumpeter’s (1934) entrepreneurship creates new disequilibrium in the markets, Kirzner’s (1973) entrepreneurship moves the markets towards new equilibrium and both forms of entrepreneurship are responsible for economic development (Schmitz, 1989). Therefore based on neoclassical economic theory, entrepreneurship is commonly defined as carrying out innovations that ignite economic change or perception and exploitation of opportunities brought by the change (Shane & Venkataraman, 2000). This is the modern meaning of entrepreneurship (Henrekson & Sanandaji, 2014) and the preferred perception because it captures entrepreneurship as a source of economic growth. It is expected that understanding entrepreneurship through either classical or neoclassical economic perspectives would lead to undertaking entrepreneurial activities with varying effects on economic growth due to differences in the focus on innovation.
However, it is noted in the literature that starting a new enterprise or business is a common explicit and implicit definition of entrepreneurship. Because enterprises start small and grow over time, the classification of enterprises by size makes the prevalence of MSMEs a common indicator of entrepreneurship in an economy. MSMEs are therefore frequently viewed synonymously with entrepreneurship (Acs & Virgill, 2009) and the MSME sector is considered important for economic growth. But it is recognised that not all MSMEs can bring economic growth (Shane, 2009). That means not all MSMEs represent entrepreneurship from the neoclassical economic perspective. Therefore scholars present further classifications of enterprises to identify MSMEs that can bring economic growth.

One of such classifications is based on motivation for the establishment of an enterprise. Whilst various external factors affect overall entrepreneurial behaviour in an economy (Rusu & Roman, 2017), individuals are driven to start a new enterprise by either perception of entrepreneurship opportunities (pull factors) or necessity (push factors) like unemployment or lack of alternative means to earn a living (Mwatsika, 2015). Scholars assert that opportunity-motivated enterprises (OMEs) are more productive than necessity-motivated enterprises (NMEs) (Bell, 2013). Although levels of NMEs can be high in both developed and developing countries, GEM (2018) shows that OMEs are most prevalent in developed countries. Therefore, the fewer OMEs in developing countries could be one possible cause of the paradox. However, not many studies have measured differences in entrepreneurship between NMEs and OMEs in Sub Saharan Africa in order to reflect on potential differences in their contribution towards economic productivity. The study, therefore, assessed differences in entrepreneurship undertaken between NMEs and OMEs by testing the following first hypothesis.

**Ho 1:** There are no differences in the values of innovations created between necessity-motivated and opportunity-motivated enterprises.

On the second classification, scholars differentiate between lifestyle and growth enterprises in the entrepreneurship literature. Burns (2016) defines a lifestyle enterprise as the ‘one which allows the founder to pursue a particular lifestyle while earning an acceptable living’. This enterprise has a limited growth orientation whereas a growth enterprise is started with an ambition for high growth. OECD (2010) defines a high growth enterprise (HGE) as the one with average annualised growth of greater than 20 percent over three years and with ten or more employees at the beginning of the observation period. HGEs are associated with innovation and Brown and
Mawson (2015) assert that they grow in a discontinuous manner thereby reflecting entrepreneurship in a neoclassical economic perspective. Although HGEs represent a small proportion of all MSMEs (Anyadike-Danes et al., 2013), scholars associate them with economic growth and job creation (Decker et al., 2014; Stam & van Stel, 2009; Shane, 2009), and as such, they are of particular policy interest in developed OECD countries (Bosma & Stam, 2012). However, there are differences in the prevalence of HGEs between developed and developing countries. The assertion by Olafsen and Cook (2016) that there are fewer HGEs and a higher prevalence of lifestyle enterprises in developing countries, is thereby propagated as one of the reasons for the paradox. Goedhuys and Sleuwaegen (2010) investigated the employment creation of HGEs in Sub Saharan Africa but there are not many studies on the differences in entrepreneurship undertaken between lifestyle and HGEs in order to reflect on potential differences in their contribution towards economic productivity. The study, therefore, assessed the differences in entrepreneurship undertaken between lifestyle and growth enterprises by testing the following second hypothesis.

**H₀₂:** There are no differences in the values of innovations created between lifestyle and growth-oriented enterprises.

The third classification of enterprises, of interest, was based on the structure of ownership; sole proprietorship and limited liability enterprises. In developing countries, most start-ups are sole proprietorship enterprises that operate in the informal sector. In Malawi, 89 percent of MSMEs are informal (Finscope, 2019). This contrasts with developed countries where most start-ups are formal firms (Munemo, 2012). The key issues studied between the categories relate to how they contribute to economic growth, job creation, taxes and factors which influence their creation. Incorporated enterprises are perceived to be more productive for economic growth because of formal structures, market-entry order, access to resources for innovation, formal planning and managers’ encouragement to take risks, among other factors (Pearce et al., 1997; Burgelman, 1985). Therefore higher prevalence of sole proprietorship enterprises and fewer incorporated enterprises is presumed to be one of the contributing factors to the paradox in developing countries. However, not many studies have compared entrepreneurship undertaken by enterprises in these categories to assess their influence on economic growth. The study, therefore, assessed the differences in entrepreneurship undertaken between a sole proprietorship and incorporated enterprises by testing the following third hypothesis.

**H₀₃:** There are no differences in the values of innovations created between a sole proprietorship and limited liability enterprises.
This review has provided an understanding of entrepreneurship from both classical and neoclassical economic perspectives. It has further highlighted categories of MSMEs to guide in the measurement of innovations and their values, and testing of study hypotheses. It will help to reflect on the paradox from the neoclassical economic perspective.

2.2 Measurement of Entrepreneurship and the Paradox

The indicators used to measure entrepreneurship depends on the definition of entrepreneurship and the availability of data (Low, 2009). Entrepreneurial behaviour, output and outcome indicators are used to measure entrepreneurship grounded in classical economic theory but it has been challenging to measure entrepreneurship as a perception of opportunities and carrying out innovations from the neoclassical economic perspective. Therefore proxy indicators such as Research and Development (R&D) expenditure, availability of venture capital and patents registered are often used (Kukoc & Regan, n.d.). There are attempts to develop appropriate indicators of Schumpeterian entrepreneurship such as Henrekson and Sanandaji’s (2014) proposed use of the number of a country’s billionaires on Forbes List.

TEA rate is a popular indicator of entrepreneurial behaviour used by GEM. It is the proportion of the population aged between 18 and 64 who is actively involved in starting a business, nascent entrepreneurs, or has started a business which is less than 42 months old, new business owner/managers (Bosma et al., 2012). GEM is a popular database for undertaking empirical analyses because it covers a large number of countries (Bosma et al., 2012) and was used in studies by Stam and van Stel (2009) and van Stel et al. (2005). As such TEA is one of the indicators which reflect the paradox in developing countries.

Entrepreneurship output indicators concentrate on new organisations although Schumpeter (1934) provides five categories of innovations (new goods or services, new methods of production, new sources of supply of raw materials, new markets and new ways of organisation of any industry) as outputs of entrepreneurial behaviour. Some of the entrepreneurship output and outcome indicators include; business start-up rates, business death rates, business churn, business ownership rates, self-employment rates and prevalence of MSMEs (Ahmad & Hoffman, 2007; Henrekson & Sanandaji, 2014). Zaki and Rashid (2016) used new establishments as a proxy of entrepreneurship when they found a negative relationship between entrepreneurship and economic growth in developing countries. It is the availability of data from business registration offices and labour office
surveys that allows measurement and comparison of entrepreneurship across countries using the output and outcome indicators.

It is common for behavioural, output and outcome indicators to show that entrepreneurship is higher in developing countries than in developed countries. For instance, GEM (2018) and ILO (2015) show that entrepreneurial behaviour and self-employment are higher in developing countries than in developed countries. However, indicators that attempt to capture entrepreneurship as a perception of opportunity and carrying out innovations show that entrepreneurship is higher in developed countries than in developing countries (Olafsen & Cook, 2016). Munemo (2012) asserts that firm start-up rates are higher in developed than developing countries. There are therefore contradictions in levels of entrepreneurship between developing and developed countries. Nonetheless, it is necessity-motivated entrepreneurial behaviour, business start-ups and self-employment which are highly prevalent in developing countries (GEM, 2018; ILO, 2015) that reflect the paradox because they do not help to achieve economic development (Shane, 2009).

This review provides two key observations. The first one is that the paradox is reflected through entrepreneurship in classical economic perspective which is not at the centre of economic development theory. Scholars; Henrekson and Sanandaji (2014) and Shane (2009) have argued that most self-employment and MSMEs in developing countries do not carry out innovations that can ignite economic development. The second observation is that measurement indicator applied do not capture entrepreneurship either conceptually or empirically (Ahmad & Hoffman, 2007). There are limitations with TEA, business start-up rates, the prevalence of MSMEs and self-employment as measures of entrepreneurship (Desai, 2017; Bergman & Stephan, 2013; Shane, 2009; Ahmad & Hoffman, 2007; Kukoc & Regan, n.d.). Nonetheless, the paradox is premised on the assumption that entrepreneurship in developing countries is capable of igniting economic development. Therefore arguments for the existence of the paradox focus on poor environments for business in developing countries (Lafuente et al., 2018). However, despite decades of effort to improve the environments for business, the expected economic development is not realised as observed by Meressa (2020) and Cassim et al. (2014) for Ethiopia and South Africa respectively. This reflects the contexts of other developing countries such as Malawi.

The study thereby attempted to reflect on the paradox from the neoclassical economic perspective. Schumpeter (1934) asserts that entrepreneurship is recognised when innovations are carried out. Therefore
innovations are an appropriate measure of the concept and they include; new products, new methods of production, new markets and new organisation of any industry. Kotler and Armstrong (2012) define a product as anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. A new product is an improved, imitated or a new brand developed through R&D efforts (Kotler & Armstrong, 2012) and its value is the exchange value realised when the product is traded (Bowman & Ambrosini, 2003). Schumpeter (1934) defines a new method of production as the ‘one that is not yet tested by experience in the branch of manufacture concerned, which by no means be founded upon a discovery scientifically new and can also exist in a new way of handling a commodity commercially’. A new method of production would mean an improved, replicated or one newly developed through R&D and its investment value is considered its value in the study. A new market is the one into which a particular branch of manufacture of a country in question has not previously entered, whether or not this market has existed before (Schumpeter, 1934). The value of a market is the aggregate exchange value realised from products sold. A new organisation is less than three and a half years old (Bosma et al., 2012). The organisation’s value is the measurable and transferable present worth (Fisher & Lentz, 1990) which is the organisation’s assets less its current liabilities (Miciula et al., 2020). The aggregate value of innovations carried out represents entrepreneurship value, the contribution towards economic productivity from entrepreneurship undertaken in the economy. Entrepreneurship was therefore measured from the neoclassical economic perspective to have a reflection on the paradox.

3. Methodology

A cross-sectional survey of enterprises was undertaken in three cities and three rural growth centres. There are approximately 1.6 million MSMEs in Malawi (Finscope, 2019) and 384 enterprises were adopted as an appropriate study sample (Saunders et al., 2009, p.219). Non-probability sampling approaches were used because there is no database of all MSMEs in Malawi. Cities have the largest concentration of enterprises in the country and therefore, they constituted 75 percent of the sample based on the rule of the thumb principle. In each location, the first enterprise was randomly selected among the first three enterprises and thereafter every third enterprise was sampled without replacement to ensure an unbiased selection of participants. Enterprise owners and managers were the key respondents in the study.
A questionnaire was used to collect data. In the first section, respondents details (sex, age, education and position), and enterprise details (type of ownership, motivation for establishment, the year the enterprise started, objective of establishment, current number of employees and number of employees a year earlier) were collected. The details were used to classify enterprises by type of ownership (sole proprietorship or limited liability enterprise), motivation of entrepreneurial behaviour (necessity or opportunity), age of enterprise (new or old), the objective of the enterprise (profit-making or non-profit making), size of the enterprise (micro, small, medium or large) and growth orientation (lifestyle or growth enterprise). In the next section, innovations were carried out and their values were recorded. Respondents were requested to provide; (1) asset book values of their enterprises and their current liabilities position, (2) new products the enterprises created and introduced into the market over the past one year together with market exchange values realised. (3) New methods of production created over the past one year and their investment values, and (4) new markets entered by the enterprises over the past one year together with product exchange values realised. These details were collected in order to calculate present worth of new enterprises, values of new products and new methods of production created and value of new markets. Data collected covered the financial year starting April 2019 to March 2020. Content validity of the questionnaire was ensured and it was piloted in the City of Mzuzu before the commencement of the survey.

Descriptive statistics (frequencies), comparison of mean values and non-parametric tests (2 independent sample tests, Mann-Whitney U tests) were used to learn about the types of enterprises in the study, those that carried out innovations, the values of innovations undertaken and differences in values of innovations between types of enterprises to reflect on the paradox. Non-parametric tests were used because residuals of the outcome value did not meet the assumption of normality during exploratory data analysis.

4. Results and Discussion

A total of 337 enterprises participated in the study representing 88 percent of the targeted sample size. Table 1 presents descriptive statistics of the study sample.
It is necessary to note that enterprises classified as a sole proprietorship, necessity-motivated, self-employed, micro, small and lifestyle are the most prevalent. Table 2 presents innovations carried out in enterprises studied and their mean values.

| Innovations and their mean values (US$) | Sample = 337 (100%) |
|----------------------------------------|---------------------|
| New products                           |                     |
| Frequency (Percent)                    | Mean value US$      |
| 84 (25%)                               | 12,003              |
| New methods of production              |                     |
| Frequency (Percent)                    | Mean value US$      |
| 7 (2%)                                 | 1,719               |
| New markets                            |                     |
| Frequency (Percent)                    | Mean value US$      |
| 4 (1.2)                                | 1,420               |
| New enterprises                         |                     |
| Frequency (Percent)                    | Mean value US$      |
| 94 (28%)                               | 8,874               |

*Exchange rate: US$ 1 = Malawian Kwacha (MK) 745

The results showed that very few enterprises carried out innovations and their values were very low. Particularly, there was a lack of
entrepreneurial activity in creating new methods of production and seeking new markets among the enterprises studied. Although 25 percent of enterprises carried out new products, they referred to product improvements and product imitations most of which were new at the enterprise level but few at the country level. The internet was a commonly cited source of new product ideas (imitations) and none of the enterprises studied had R&D programmes for new products development. The results demonstrate that entrepreneurship is low in Malawi when perceived from the neoclassical economic perspective as carrying out innovations.

In the following analyses values of innovations created were compared between classes of enterprises. Two independent samples tests (Mann-Whitney U tests) were undertaken to test the hypotheses of the study. The first hypothesis was that there are no differences in the values of innovations created between necessity-motivated and opportunity-motivated enterprises. Mann-Whitney U test results, Table 3, showed statistically significant differences between opportunity-motivated and necessity-motivated enterprises in the values of new enterprises (ENTV) \( (p = .002) \), new production methods (NMPV) \( (p = .001) \) and new markets (NMKV) \( (p = .001) \). But there were no statistically significant differences in values of new products (NPSV) \( (p = .592) \). The results rejected the first hypothesis. Opportunity-motivated enterprises created more value for innovations than necessity-motivated enterprises.

|                  | Necessity Motivated | Opportunity Motivated | \( P \) value |
|------------------|---------------------|-----------------------|---------------|
| Number           | 273                 | 64                    |               |
| Median (IQ range)| ENTV 1700000 (6520000) | 4302500 (119137500)* | .002          |
| NPSV             | 0 (0)               | 0 (1098750)           | .592          |
| NPMV             | 0 (0)               | 0(0)*                 | .001          |
| NMKV             | 0 (0)               | 0 (0)*                | .001          |

The second hypothesis was that there are no differences in the values of innovations created between lifestyle and growth-oriented enterprises. Mann-Whitney U test results, Tables 4, showed statistically significant differences between growth-oriented and lifestyle enterprises in the values of new enterprises (ENTV) \( (p = .047) \), new products (NPSV) \( (p = .001) \) and new markets (NMKV) \( (p = .021) \). But there were no statistically significant differences in values of new production methods (NMPV) \( (p = .163) \). The
second hypothesis was thereby rejected. Growth-oriented enterprises created more value for innovations than lifestyle enterprises.

Table 4: Differences in values of innovations between Lifestyle and Growth-oriented enterprises

|                  | Lifestyle | Growth-oriented | P value |
|------------------|-----------|-----------------|---------|
| Number           | 330       | 7               |         |
| Median (IQ range)| ENTV      | 2000000 (8500000) | 20000000 (24680000)* | .047    |
|                  | NPSV      | 0 (0)           | 3410000 (8220000)* | .001    |
|                  | NPMV      | 0 (0)           | 0 (0)    | .163    |
|                  | NMKV      | 0 (0)           | 0 (0)*   | .021    |

The third hypothesis was that there are no differences in the values of innovations created between a sole proprietorship and limited liability enterprises. Mann-Whitney U test results, Table 5, showed statistically significant differences between limited liability enterprises and sole proprietorships in the values of new enterprises (ENTV) \((p = .006)\), new production methods (NPMV) \((p = .001)\) and new markets (NMKV) \((p = .007)\). There were no statistically significant differences in values of new products (NPSV) \((p = .694)\). The third hypothesis was rejected. Limited liability enterprises created more value for innovations than sole proprietorship enterprises.

Table 5. Differences in values of innovations between Sole proprietorship and Limited liability enterprises

|                  | Sole     | Limited liability | P value |
|------------------|----------|-------------------|---------|
| Number           | 318      | 19                |         |
| Median (IQ range)| ENTV    | 2000000 (6500000) | 209500000 (88200000)* | .006    |
|                  | NPSV    | 0 (21500)         | 0 (1300000) | .694    |
|                  | NPMV    | 0 (0)             | 0 (3400000)* | .001    |
|                  | NMKV    | 0 (0)             | 0 (0)*   | .007    |

Overall, the results rejected the study’s hypotheses. Opportunity-motivated, growth-oriented and limited liability enterprises created more value of innovations than necessity-motivated, lifestyle and sole proprietorship enterprises respectively. Thereby underscoring the former as types of entrepreneurial MSMEs.

The following is the learning generated from the findings of the study. There are contrasting levels of entrepreneurship from the classical
and neoclassical economic perspectives. Malawi has a higher TEA rate (Dalious et al., 2012), which means a higher proportion of the adult population is engaged in entrepreneurial activities. Necessity-motivated, lifestyle and sole proprietorships are the most prevalent types of enterprises according to the findings of the study. However, when entrepreneurship is perceived through neoclassical economic theory as carrying out innovations, then it is very low in Malawi. The majority of enterprises do not undertake innovations. Therefore the level of entrepreneurship in the country depends on the understanding of the concept. It is high through classical economic perspective and low through a neoclassical economic perspective. This demonstrates the need for an appropriate understanding of the concept in entrepreneurship development.

The findings provide empirical evidence that opportunity-motivated, growth-oriented and incorporated enterprises are more entrepreneurial than necessity-motivated, lifestyle and sole proprietorship enterprises respectively. As such the study supports scholars (Bell, 2013; Stam & van Stel, 2009; Pearce et al., 1997) on productivity and therefore the importance of opportunity-motivated, growth-oriented and incorporated enterprises in economic growth. The findings further agree with Olafsen and Cook (2016) and GEM (2018) on the higher prevalence of lifestyle and necessity-motivated enterprises and the low presence of opportunity-motivated and growth-oriented enterprises in developing countries. Overall, the results support Shane’s (2009) assertion that entrepreneurship undertaken in developing countries is less productive towards economic development because not many MSMEs undertake innovations.

It is further explained from the findings that perceptions of the paradox depend on the understanding of entrepreneurship. Entrepreneurship in the classical economic perspective, reflected through TEA (Dalious et al., 2012), is high in Malawi, but most MSMEs do not carry out innovations. Therefore they do not contribute significantly towards economic growth and thereby reflect the paradox. However, entrepreneurship from a neoclassical economic perspective reflected through carrying out innovations is low as per study findings. Very few MSMEs carry out innovations to contribute significantly towards economic growth. From this perspective, there is no paradox. It would therefore be important for policy in Malawi to align with neoclassical economic perspectives of entrepreneurship. It is Schumpeter (1934) who placed entrepreneurship, as carrying out innovations, at the centre of economic development theory and various scholars agree that entrepreneurship brings economic growth (Lee & Xin, 2015; Decker et al., 2014). Therefore as MSME policy in Malawi focuses on institutional
reforms and improving the environment for businesses to enhance MSME sector growth, the focus on carrying out innovations would be so fundamental for entrepreneurship to positively influence economic growth. That means finding ways to increase opportunity-motivated, growth-oriented and incorporated enterprises which undertake innovations.

Meressa (2020) and Cassim et al. (2014) observed that efforts are undertaken to improve the environments for business in Ethiopia and South Africa respectively but expected results in economic development are not achieved. If the contexts of these countries and others in Sub Saharan Africa are similar to Malawi as reflected in the study findings, then it is argued that entrepreneurship is ineffective because the majority of enterprises do not carry out innovations that would increase productivity, competitiveness and economic growth. Since entrepreneurship is recommended for adoption as a strategy for economic development in SADC countries (Wekwete, 2014), it would be necessary to adjust perceptions of the concept in the region to neoclassical economic theories. That will guide MSME policies and entrepreneurship development initiatives to focus on creating the requisite environments for business that would promote innovation, competition and growth of productive enterprises that would eventually induce economic growth. Without the necessary adjustments in knowledge about the concept of entrepreneurship, the status quo which reflects the paradox shall prevail.

The contribution of the study is that perceptions of the paradox (Lafuente et al., 2018; Bell, 2013) in developing countries depend on what is perceived and undertaken as entrepreneurship ceteris paribus. Nonetheless, neoclassical economic theory (Schumpeter, 1934; Kirzner, 1973) which informs the modern understanding of entrepreneurship (Henrekson & Sanandaji, 2014) is appropriate when contemplating entrepreneurship within economic development theory. A paradigm shift is, therefore, necessary to perceive entrepreneurship as perception and carrying out innovations if entrepreneurship is to become an effective strategy for economic development in developing countries.

5. Conclusion

The purpose of the study was to reflect on the entrepreneurship paradox in Sub Saharan Africa from a neoclassical economic perspective. Measurement of entrepreneurship as carrying out innovations among enterprises in Malawi revealed that entrepreneurship is very low in the country. Opportunity-motivated, growth-oriented and limited liability enterprises are the entrepreneurial types of enterprises but there are very few. The majority of enterprises are necessity-motivated, lifestyle and sole
proprietorships which do not undertake innovations. As such the study found that perception of the paradox in developing countries (Lafuente et al., 2018; Bell, 2013) is contentious. It depends on the theories which guide the understanding of entrepreneurship. Entrepreneurship from a classical economic perspective, as starting a new business or enterprise, reflects the paradox whereas entrepreneurship from a neoclassical economic perspective, as a perception of opportunities and carrying out innovations, does not reflect the paradox.

The study contributes to knowledge that opportunity-motivated, growth-oriented and limited liability enterprises are the entrepreneurial types of MSMEs and that perception of the paradox depends on scholars’ understanding of entrepreneurship. However, since the neoclassical economic perspective places entrepreneurship at the centre of economic development theory, it is recommended that the understanding of entrepreneurship in Malawi be adjusted to neoclassical economic theories. Secondly, refocus efforts on reforming institutions and improving environments for businesses to support the growth of the entrepreneurial types of enterprises. That will increase the number of entrepreneurial enterprises, improve firm and industry competitiveness and overall economic productivity.

If the context of Malawi revealed by the study findings positively reflects other countries in Sub Saharan Africa, then it is concluded that entrepreneurship does not bring economic growth in developing countries (Zaki & Rashid, 2016; Stam & van Stel, 2009) because the majority of enterprises do not carry out innovations. The findings agreed with Shane (2009) that not all MSMEs are entrepreneurial to contribute significantly towards economic growth. Therefore, similarly, an adjustment of the understanding of entrepreneurship to neoclassical economic theories is recommended in the region to guide policy if entrepreneurship is to become an effective strategy for economic growth.

However, the fact that the study was undertaken in only one country limits the position reached. Therefore further studies are encouraged to replicate this research in Sub Saharan African countries to measure innovations created in enterprises and determine types of MSMEs that are entrepreneurial. This will inform policy on support required by entrepreneurial MSMEs, and invigorate efforts in institutional reforms and improvement of environments for business to enhance the effectiveness of entrepreneurship on economic growth in the region.
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