

# **Framework of Entrepreneurship Theories in Augmenting Performance of Small and Medium Enterprises (SMEs) in Zambia**

**Dr Sidney Kawimbe**

*(ZCAS University)*

---

**Abstract:** This paper examined the entrepreneurship theories in restructuring small and medium enterprise (SMEs) in Zambia as predictor catalyst of development. With the ever-increasing awareness in the study of entrepreneurship there is a need for framework that defines the domain of the field, its building block and Interest. The complexity and dynamism inherent in entrepreneurship acting in the face of uncertainty can help to create opportunity in SMEs, promote efficiency and provide better services. The methodology of study was conducted using meta- analysis that relied on secondary data by way of existing literature for the study. The major finding reveals that, there is clearly a need for improving theory building and applying established theories through good implementation for greater attention. It was concluded that, although SMEs have played significant roles in the development and industrialization of many economies across the world, however in Zambia SMEs performance is low as a result of factors like previously government lack of support to the sector through incentives and policy inconsistencies, poor attitude and habit of entrepreneurs and unfavorable environmental factors

**Key Words:** Entrepreneurship, theories, restructuring, SMEs, Zambia Development Agency.

---

## **1.0 Introduction**

The ability of nationals and foreign investors to engage in building new businesses or engaging in restructuring of existing ones in order to adjust to changes in the economic, social and political environment is the hallmark of entrepreneurial development. Entrepreneurship is the process of value creation and appropriation of entrepreneurs in an uncertain environment (Mishra and Zachari, 2014). Stephenson (2011) defines entrepreneurship as the pursuit of opportunities beyond the resources that are currently under one's control. Economists from Schumpeter (1934) and Weber (1904) argued that the innovational part of entrepreneurship is crucial for economic development that latter lead to higher performance and development. In Zambia, the last few years have seen entrepreneurship receive significant interest by government, especially the New Dawn, researchers, policy makers and academicians across the globe. Naude (2013) argued that entrepreneurship plays a significant role in global development which appears in phrases.

### **The first phrase**

Managed economy of the 1970s and 2000s in the Western countries, characterised by big reliance on business and mass production, gave way to the so-called entrepreneurial economy, where knowledge driven are more flexibly created by smaller creative class.

### **Second Phrase**

Growth in emerging economies (Brazil, Russia, India, China, South Africa – BRICS) driven by innovative entrepreneurial revolution

### **Third Phrase**

With the least developed countries reliant on donor and other funding agencies, these donors have been shifting emphasis in development corporation towards private sector development.

In times when large firms have not yet reached their powerful position, SMEs are generally referred to as “engines of growth development and catalyst for social-economic transformation. The need for restructuring of SMEs will be significant in conceiving opportunities and unique value propositions that can repeatedly bring ideas to commercially value forms in areas of employment creation, poverty reduction, development of human capabilities, provision of raw materials, enhancement of standard of living of SMEs employees and stemming of rural urban- migration. The need to place entrepreneurship on the pedestal has been underscored by the UPND government by way of increasing Constituency Development Fund (CDF) from ZMK 1.6 Million (\$94,000) per constituency to ZMK 25.7 Million (\$1.5 Million), reforming of National Pension Scheme (NAPSA) to start paying lumpsum and waiver and reduction of penalties on delayed submission of returns

### **Objective of the study**

The objective of this study is to examine how entrepreneurship theories generally can augment the restructuring of SMEs in Zambia towards national development as espoused in the 8<sup>th</sup> National Development Plan (8NDP) Pillar No 4.2 “*Moving Towards Vision 2030, What will it take*”.

## **2.0 Evolution of Entrepreneurship**

Entrepreneurship is a highly dynamic and fast-growing scholarly field of research with a long intellectual tradition. Its intellectual roots can be traced back to the work of economists such as Cantillon (1755), Smith (1766), Knight (1921) and Schumpeter (1934), who laid the foundations by defining entrepreneurship and its relationship with innovation, economic growth, and uncertainty. After a rather sluggish growth for decades, entrepreneurship research gained some momentum with an emphasis on the person-centric approach, which attributes psychological traits and people’s characteristics as predictors of entrepreneurship (Mc Clelland and McClelland 1965). As it evolved, the field experienced a behavioral turn, with growing emphasis on what entrepreneurs really do; particularly why and how they recognize, evaluate, and exploit opportunities, (Shane and Venkataraman, 2000).

Some scholars argued that the field had become fragmented and criticized that the field became a broad label under which a ‘potpourri’ of research was housed, (Gartner 2001). Other scholars concluded that the field was highly permeable, relied heavily on major management journals, and lacked boundaries and new theories (Busenitz, Let al 2003). Like in the sciences and other fields of social sciences, there is a tradition among entrepreneurship scholars to pause to take stock of what has been done in the past and reflect on the future. Mapping and tracking the evolution of entrepreneurship research is central to our understanding of the institutionalization of entrepreneurship, assess its legitimacy, and identify alternate histories and future opportunities. The collective success of the science of entrepreneurship is vital, as it helps entrepreneurs, policy makers and global institutions understand the drivers, obstacles and rules that affect value creation, economic growth, resource allocation and policy agenda that shape societal well-being. A number of scholars have attempted to examine the domain of entrepreneurship field, map its intellectual structure, and assess its evolution (Busenitz, et al (2003), (Cornelius, B., Landström, H and Persson, O (2006).

Unfortunately, the studies depict conflicting findings with some scholars concluding a maturing, Cornelius (2006) and converging pattern (Landström, H and Harirchi, G (2012) while others suggest lack of maturity and diverging patterns in the entrepreneurship research. Although these studies made a significant contribution to what we know about entrepreneurship as a field, they tend to be based on older bibliographic materials (i.e., up to 2009), and used a single analytical approach, i.e., primarily co-citation relations analysis. Therefore, these do not represent well the more recent development in entrepreneurship research especially in Zambia where literature reservoir is only building up. Moreover, co-citation analysis is only one of the techniques used in scientometrics; it can be enhanced by newer techniques in scientometrics including topic mapping and overlay visualization analyses to deepen our understanding of the field.

## **3.0 Theories of Entrepreneurship**

Theorization among management scholars has created complex debates and perceptions. Arend, Sarooghi & Burkemper (2015), posit 3E theory assessment framework (Experience, Explanation and Established) as a yardstick for its comprehension. Delbuidge and Fiss (2013) stated that entrepreneurship theories are many, and thus there cannot be universal framework based on the understanding of the evolution and development of entrepreneurship in its contextual usage. Such diversity is especially evident within entrepreneurship studies; examples include cultural, technology, storytelling, dynamic creation, sense making and complexity entrepreneurship theories (Lichtenstein, 2011).

### **3.1 Entrepreneurial Discovery Theory**

This theory focusses on the role of entrepreneur in removing or eliminating price discontinuities in the market, with a desire at arriving in market equilibrium position. Rational entrepreneur are price makers, as they are motivated by profitable opportunities in the market.

The market forces are driven by bold and alert entrepreneurial action, buying goods at a lower price and selling at a higher price. Unlike an inventor, entrepreneur does not create opportunity. Shane and Venkatraman (2000) emphasized the role of entrepreneurial opportunities as central to the entrepreneurial process. Entrepreneurial process is defined as discovery and exploitation of profitable opportunities; namely why, where, when and how such people and not others discover and exploit these opportunities, and why, when and how different modes of action are used to exploit these opportunities. The opportunities that match with the entrepreneurial resources are dependent on the individual opportunity nexus.

### 3.2 Process Theory

Process theory approach using narrative and grounded theory methods within venture creation studies started from explanation the stages of opportunity development (Bhave 1994), disclosing stages of the entrepreneurial process in venture creation context. Bhave suggests externally and internally stimulated versions of opportunity recognition process ways with different sequences of the sub-processes of opportunity filtration, selection, and refinement. His process model could be characterized as an iterative, nonlinear, (operational & strategic) customer feedback driven, conceptual and physical process covering the three stages: Opportunity, Technology Setup & Organization Creation, and Exchange Stage. Entrepreneurial process model was improved with the effectuation theory by Sarasvathy (2001)

According to the effectuation theory (Sarasvathy 2008), to realize the opportunity in the entrepreneurial process, it needs to adapt the means and goals alternately. Krueger (2003) analyzed entrepreneurial process in the context of entrepreneurial psychology. Especially are missing characteristics of skills, cognition and personal traits describing (nascent) entrepreneur as well as trainee in the incubation program.

### 3.3 The Entrepreneurial Value Creation Theory

Entrepreneurship is not merely the process of founding a new venture. Entrepreneurship is defined as a process of value creation and appropriation led by entrepreneurs in an uncertain environment (Mishra and Zachary, 2014). The entrepreneurial process of value creation is driven by the entrepreneur and her entrepreneurial intention (an aspiration for entrepreneurial reward). The entrepreneurial process is not an autonomous process; the entrepreneur is integral to the entrepreneurial process. Thus, the entrepreneurial intention and resources are intrinsic to the entrepreneurial process. The entrepreneurial process involves the entrepreneur identifying an external opportunity; matching the entrepreneurial resources at hand with the opportunity to effectuate an entrepreneurial competence; acquiring external resources, if necessary; creating sustained value; and appropriating the entrepreneurial reward. In The Theory of Entrepreneurship, the entrepreneurial value creation theory examines the interiors of the entrepreneurial process using a two-stage value creation and appropriation framework (Mishra and Zachary, 2014). In the first stage of venture formulation, the entrepreneur, driven by the entrepreneurial intention or an aspiration for entrepreneurial reward, discovers an external opportunity (or the opportunity may precede the entrepreneurial intention), and the opportunity is leveraged by the entrepreneurial resources at hand using an effectuation mechanism.

The entrepreneurial opportunity is reconfigured to develop an entrepreneurial competence, an asymmetric advantage for the entrepreneur. The entrepreneurial competence embeds the entrepreneurial resources and the reconfigured opportunity (e.g., the proof of concept. Simply put, the entrepreneur will make do with the resources available and seek assistance from others; namely, other entrepreneurs and customers. It is sufficient that the entrepreneurial competence created in the first stage of value creation provides a differential advantage to the entrepreneur allowing her to move to the second stage.

In the second stage of venture monetization, the entrepreneur may obtain external resources such as venture capital or strategic alliances, if necessary, and build or acquire complementary dynamic capabilities. The venture's dynamic capabilities embedded in the business model design reconfigure the entrepreneurial competence to sustain value creation and appropriate the entrepreneurial reward. The Theory of Entrepreneurship (Mishra and Zachary, 2014) details the two stages of the entrepreneurial process and all the sub-processes therein. Mishra and Zachary derived 190 testable propositions using the entrepreneurial value creation theory. Several additional propositions are possible when the entrepreneurial value creation theory is applied to a specific entrepreneurial context or an entrepreneurial activity.

The stage-one processes are iterative until a real marketable opportunity is discovered and sufficient entrepreneurial competence is developed to move to stage two. The entrepreneurial competence embeds the entrepreneurial ability and venture quality and offers a temporary advantage to the entrepreneur to move to the second stage. The entrepreneurial competence formulated in stage one is assessed for whether the entrepreneur and her team have a winning strategy relative to the competition (Mishra, 2015). The entrepreneurial competence drives the value creation and appropriation in the second stage. In the second stage, the business model design embedded along with the dynamic capabilities sustains the value creation and finally the entrepreneurial reward is realized. The second-stage sub-processes are iterative such that the entrepreneurial competence and dynamic 5 capabilities sustain value creation and make the entrepreneurial reward worthwhile (Mishra, 2015). Figure 1 below illustrates the position that when an entrepreneurial opportunity (value potential) meets entrepreneurial competence (Value Driver), it results in value reward (Value Appropriated), we say ***“Opportunity Dances with Those Already on the Dance Floor”***. The model is used to examine all company activities involved in taking a product or service from idea to sellable item. Ideally, companies can use the value chain model to strengthen their point of view and widen their profit margin—more efficiency and fewer costs.

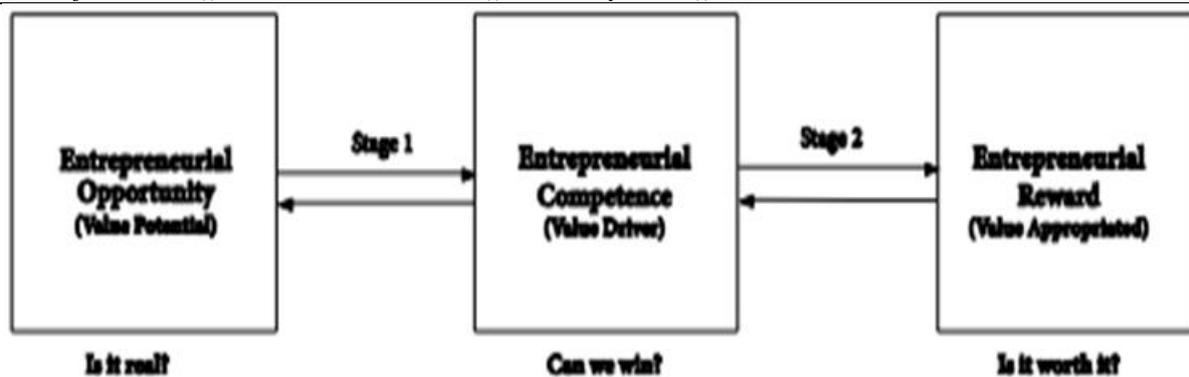


Figure 1 Entrepreneurship Value Chain Model

### 3.4 Effectual Theory

Effectuation is a process theory that explains the process that entrepreneurs use to create new ventures. When looking at ways to create value for a business, entrepreneurs have the choice between ways of thinking: causal (or predictive) thinking and effectual thinking (or effectuation). It also recognizes that entrepreneurs need a supportive ecosystem to foster business development. Effectuation theory has the additional benefit of being a strengths-based approach, focusing on what young people have rather than what they do not (e.g., bird-in-hand).

### 3.5 Knowledge Spill Over Theory

In asking the question of why some individuals act entrepreneurially, while others do not, scholars have remained fixated, on the one hand, on taking the existence of the entrepreneurial opportunity for granted, while, on the other hand, asking what individual-specific characteristics account for differences in entrepreneurial behaviour across individuals. For example, Krueger (2003) concludes that ‘the heart of entrepreneurship is an orientation toward seeing opportunities’, which frames the research questions, ‘what is the nature of entrepreneurial thinking and what cognitive phenomena are associated with seeing and acting on opportunities?’. Thus, as Plummer et al. (2007) point out, ‘a notable lack of research focused on the origins of opportunity’.

Rather, the traditional approach to entrepreneurship essentially holds the entrepreneurial opportunity as given and fixed and proceeds to ask how the cognitive process inherent in the entrepreneurial decision varies across different individual characteristics and attributes (McClelland, 1961; Shaver, 2003). As Shane and Eckhardt (2003, p. 187) conclude, entrepreneurship has been primarily concerned with ‘the process of opportunity discovery’, thereby helping to explain ‘why some actors are more likely to discover a given opportunity than others.’

The entrepreneurial opportunity itself is taken as given and implicitly fixed, enabling variations in the propensity to become an entrepreneur across people to be explained by individual-specific characteristics, such as the need for autonomy, the willingness to incur risk, as well as a superior access to scarce and costly resources, such as financial capital, human capital and social capital. While holding the entrepreneurial opportunity implicitly fixed and focusing on differences across individual characteristics has generated a number of valuable insights, such as the importance social networks, education and training, and familial influence (Acs and Audretsch, 2003), Company’s and McMullen (2007), warn that, ‘Despite the advances and the importance of entrepreneurial opportunities to strategy and entrepreneurship, there have been surprisingly few recent studies that explore the nature of opportunities. Currently, scholarly understanding of the origins of entrepreneurial opportunities remains limited owing to the fact that most studies have taken opportunities for granted when exploring strategic and entrepreneurial processes.’

## 4.0 Characteristics of SMEs in Zambia

According to the MSME Development Policy of the Ministry of Commerce Trade and Industry (MCTI) of Micro, Small and Medium Enterprises (SMEs), a Small or Medium Enterprise (SME) shall be any business enterprise registered with the Patents and Companies Registration Agency (PACRA) with the following characteristics:

| SN | Category                     | Micro Enterprises | Small Enterprises   | Medium Enterprises   |
|----|------------------------------|-------------------|---------------------|----------------------|
| 1  | Total Investment (Equipment) | K1 – K80,000      | K80,000 – K200,000  | K200,000 – K500,000, |
| 2  | Annual Sales Turnover        | K1 – K150,000     | K150,000 – K300,000 | K300,000 – K800,000  |
| 3  | Workers                      | 1 – 10 employees  | 11 – 15 employees   | 51 – 100 employees   |

### 5.0 Restructuring of SMEs in Zambia

In today’s world, business especially on SMEs, entrepreneurship theories have contributed not just alleviating unemployment problem, but significantly impacted on both social and economic stability as well as to innovation and competitiveness. The increasing concern of SMEs as a social goods has been identified as a driving force in entrepreneurship, and a necessary restructuring phenomenon for economic growth (Audretsch and thurik, 2000). The Zambian government through the Ministry of SMEs therefore needs to be alive to the fact that understanding the theoretical frameworks that underpin entrepreneurship may be a panacea of a vibrant SME sector capable of immensely contributing to the GDP of the country

### 6.0 Findings and Conclusions

From the discussion above, this paper posits that there is clearly a need for improving theory building and established through good implementation for greater attention, identifying and exploiting opportunities, especially under condition of business uncertainty, to either create new business or restructuring existing one capable of providing employment for people and value for stakeholders is germane for social-economic restructuring of an economy. The distinctive role of entrepreneurship on small and medium enterprise in the supply of raw materials to the industrial sector, reducing rural-urban migration, promotion of indigenous technology and serving as vital “spring-board” contribution to the level of gross domestic product is identified instrument to acceleration of economic development. SMEs that are non-entrepreneurial need to be encouraged and supported theoretically especially in order to keep potential labour force (youths) engaged.

In conclusion, although small and medium enterprise (SMEs) have played significant role in development and industrialization of many economies across the world, however, in Zambia SMEs role is low, due to several problem like government instability and political inconsistencies, poor attitudes and habits of entrepreneurs and environmental factors.

### References

- [1]. Arend, R.J., Sarooghi, H., & Burkemper, A. (2015). Effectuation as ineffectual? Applying the 3E theory-assessment framework to a proposed new theory of entrepreneurship. *Academy of Management Review*, 40, 630-651
- [2]. Baker, T., & Nelson, R.E. (2005). Creating something from nothing: Resources construction through entrepreneurship Bricolage. *Administrative Science Quarterly*, 50, 329-366.
- [3]. Bhawe, M. P. (1994). A process model of entrepreneurial venture creation. *Journal of Business Venturing*, Vol. 9, pp. 223-242.
- [4]. Busenitz LW, West GP, Sheperd D, Nelson T, Chandler GN, Zacharakis A (2003) Entrepreneurship research in emergence: Past trends and future directions. *Journal of Management*.
- [5]. Busenitz, LW., West, GP., Sheperd, D, Nelson, T., Chandler, G and Zacharakis A (2003). Entrepreneurship research in emergence: Past trends and future directions. *Journal of Management*.
- [6]. Cantillon, R (1755) *Essay on the Nature of Commerce*. London: MacMillan
- [7]. Cornelius, B., Landström, H and Persson, O. (2006) Entrepreneurial studies: The dynamic research front of a developing social science. *Entrepreneurship: Theory and Practice*.
- [8]. Gartner, WB (2001) Is there an elephant in the entrepreneurship? Blind Assumptions in Theory Development. *Entrepreneurship Theory and Practice*. 27–39.
- [9]. Knight, (2020) *Risk, Uncertainty and Profit*. New York: Hart, Schaffner and Marx
- [10]. Lichtenstein, B.B (2011). Complexity science contribution to the field of entrepreneurship. In P.Allen, S.Maguire,&B.Mckelvey (Eds),*The sage handbook of complexity and management*,473-495,Los Angeles; sage.
- [11]. McClelland, D and McClelland (1965) *Journal of personality and social psychology*. 1965;1(4):389–92.
- [12]. Sarasvathy, S. (2001). Causation and effectuation: towards a theoretical shift from economic inevitability to entrepreneurial contingency. *Academy of Management Review*, Vol. 26, No. 2, pp. 243-288
- [13]. Saravasthy S.D. (2001). Causation and effectuation: Toward a theoretical shift from economic inevitability to entrepreneurial contingency. *Academy of Management Review*, 26, 243-263.

- [14]. Schumpeter, J (1934) *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle*. Rutgers, New Jersey: Transaction Publishers.
- [15]. Shane, S and Venkataraman, S (2000) The Promise of Entrepreneurship As a Field of Research. *Academy of Management Review*. 2000;25(1):217–26.
- [16]. Shane, S., & Venkatarainan, S. (2000). The promise of entrepreneurship as a field of research. *Academy of management review*, Vol No 25.
- [17]. Smith, A (1756) *An Inquiry into the Nature and Causes of the Wealth of Nations*. London: Strahan and Cadell