The Difference Between Entrepreneurship and Small and Medium-Sized Enterprises

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Abstract

This paper aims to explore the relationship between entrepreneurship and small, and medium-sized enterprises (SMEs) through a literature review by defining their similarities and differences. This analysis is important because the use of the two definitions is inconsistent and sometimes confusing. Entrepreneurship and small business are very closely intertwined to the degree that they are used interchangeably more often than not as if they mean the same thing. Although entrepreneurship and SMEs play an important role in job, income and societal change, particularly in developing economies, they are still not synonymous. This paper argues that entrepreneurship differs from SMEs by closely examining the literature on the two. Despite their differences, entrepreneurship and SMEs play significant roles in an economy's development and growth. SMEs are seen to account for quite a large proportion of the business sector while entrepreneurial enterprises are seen as the drivers of economic growth and job development. Entrepreneurship is a process that leads to the growth or creation of start-ups and small and medium-sized enterprises and business projects. Finally, this paper concludes with a framework of the relationship diagram that substantiates their discrepancy and similarities.

Keywords

Entrepreneurship, Small and Medium-Sized Enterprises (SMEs), Small Business Owners
Introduction

Entrepreneurship and small and medium-sized enterprises (SME) have customarily played a substantial role in each economy (Abbasi et al., 2021), and they identified as a pillar for most economics (Jansen et al., 2017; F Okyere, 2017). Both are important for economic growth and have a positive impact on development (Kee-Luen et al., 2013). For instance, they can add more value to the economic activities by; enabling people to achieve self-development and to be an independent (Bilal & Al Mqbali, 2015), can offer more jobs, reduce poverty (Magd & McCoy, 2014), stimulate the expansion of trade (Strickling, 2016). They also have a positive impact to country’s GDP by contribution to the government extra income flows (Magd & McCoy, 2014), can have a head start in delivering and creating new products and services (Shammari, 2010), and decreasing the rate of unemployment (Hassan & Olaniran, 2011).

SMEs account for around 90% of enterprises and more than half of all jobs in the globe. In emerging economies, formal SMEs generate for up to 40% of national income (GDP). When informal SMEs are included, the numbers are much larger. According to The World Bank, the world’s rising global workforce would require up to 600 million employment by 2030, making SME development a top priority for many governments around the world. SMEs, which account for seven out of ten jobs in emerging markets, generate the majority of formal jobs (World Bank, 2021). According to the OECD et al. (2018), the SME sector has contributed to the European Union (EU) about (60-70%) of the total workforce, and (51%) in the USA. Newly developed countries such as; Singapore and South Korea have (70%) and (88%) of the total workforce respectively coming from SME (MSS, 2017). Employment in SMEs in other countries like Morocco is (46%), Dubai with (42%), and Oman with (40%) (Lina, 2017; Magd & McCoy, 2014; SME Report, 2013). SMEs hold the most number of total enterprises and generate a large amount of value add. For example, SMEs in 2017 in OECD countries account around (99%) of overall companies and produced about (50-60%) of value add (OECD, 2017). In member countries of European Union and the USA, SMEs account (58%), (51%) of value add to the country’s GDP and (93%), (98%) of total businesses respectively (European Union, 2016; MSS, 2017). Likewise, developed countries, numerous studies from developing countries have promoted the contribution of SMEs in their economies. For instance, in Singapore almost 99% of business is categorized as SME and the contribution to GDP is over 50% as value addition (Pauceanu, 2016). Similarly in South Korea, SMEs make up almost 99% of all the small businesses and contribute to upwars of 51% in GD of the country in the form of vaue addition (MSS, 2017). In Malaysia, small business enterprises make up 99.2% of the econoy (Ahmad et al., 2020), and contribute upto 36% in GDP as value addition. Same is the case with middle eastern countres like Morocco and Dubai (Al Barwami et al., 2014).

Entrepreneurship, on the other hand, is seen as Promote innovation
(Cheyre, 2018), promote social cohesion (Clark, 2010), and have the ability to utilize raw and local resources efficiently (Jansson et al., 2017). Similarly, the significance of Entrepreneurship to heading economic growth for most contemporary countries is widely recognized, by both economists and governments (Francis Okyere, 2016; E. Stam, 2015). Meanwhile, the report presented by European Commission in (2003) pointed that entrepreneurship in Europe is so deeply embedded in policy approach where the creativity and independence of the European entrepreneurs contribute to promoting economic activities (COM, 2003). F Okyere (2017) cited by Van Stel (2005), emphasized that among the contributions of entrepreneurship to any economy are those pointed out by scholars like Knight (1921), Schumpeter (1934), and Kirzner (1973), where the scholars stress different aspects of the role of the entrepreneur. For example, Knight (1921) emphasized the risk assuming aspect, while Schumpeter emphasized the innovation, and Kirzner stresses the role of the entrepreneur in the leading market to equilibrium. This was confirmed also by Tagraf and Akin (2009), ABD (2012), and Al Barwami et al. (2014) that entrepreneurship is fundamental to innovation and change to lead to an improvement in producing, services, and competitiveness. Based on the contribution of both entrepreneurship and SME to economic growth, the observation by Manyani et al. (2014) is justified when they pointed that both entrepreneurship and small enterprises are backbone or seedbed or lifeblood for economic development in each country.

However, as long as their similarity in contributing to the country’s economic growth, entrepreneurship and SME are not synonymous in the same way. Entrepreneurship is often confused with small enterprises (SME). It is commonly understood that individuals that start of an entrepreneurial venture are known as entrepreneurs and the common terminology used for small businesses is entrepreneurial businesses (Qureshi et al., 2016). However, there is a difference between a small business owner who follows in the footsteps of others and an entrepreneur who creates something new (Acs & Szerb, 2009). Based on this impulse, this paper tried to remove confusion between the two concepts, thereby contribute to clarify the inconsistency in the use of the two concepts.

**Main objective**

The main objective of this paper is to distinguish between entrepreneurship and SME. Therefore, this paper begins with literature, review by firstly: Examine the definitions of Entrepreneurs and SME, secondly: investigate the similarities and differences pillars between Entrepreneurship and small enterprises to obtain the common area between them and develop a model based on the distinction between two concepts. Finally, the discussion ends with conclusions and recommendations.

**Methodology**

As a conceptual review paper, this paper is primarily focused on academic
studies that will address the literature review as a technique to shed light on topics of entrepreneurship and small and medium-sized enterprise. The analysis is conceptual and the analytical approach is used based on the review of the secondary data from various types of studies. By review of the two definitions for them to explore characteristics for entrepreneurship and SME. This status is consistent with interpretative reasoning in the social sciences according to Dzansi and Hoeyi (2013). First, the paper aimed at recognizing the relationship between SMEs and entrepreneurship and the differences that exist. The data were subjected to logical inductive reasoning and the findings were addressed and evaluated and end with conclusion and recommendations. Therefore, this paper seeks to answer two main questions namely; 1. What are the differences between Entrepreneurship and SME and what are the similarity? 2. How would be the relationship between them?

**Literature Review**

**Definition of Entrepreneurship**

To begin the scientific differentiation, this paper starts from the definition of entrepreneurship developed by Global Entrepreneurship Monitor “Entrepreneurship as an attempt to create a new business or new venture (e.g. self- employment, a new business enterprise, or expanded the current business, created individually or by the team or group of people” (Hart et al., 2015). Similarly, Global Entrepreneurship Indix stated that, an entrepreneur has a vision and the ability to bring an innovation to the market. In line with this definition, in the markets of most of the cities across the world, most small-scale enterprises are not entrepreneurs. Few of them are entrepreneurial since they have nothing new. The majority of these persons are merchants or shop proprietors, who handle a small business. These folks are now important, creating their families employment and cash. However, here is important to distinguish between the small business owner who repeats what others do and the businessman who innovates (Acs & Szerb, 2009). Pyper (2016) identifies entrepreneurship with entrepreneurial activities whereas the definition provided by UN encompasses innovative activities that enhance current business practices in trade (Al Barwami et al., 2014). In addition, Shammari (2010) defends entrepreneurship as "the creation of a free, creative and risky enterprise", while F Okyere (2017) states that entrepreneurial activity is the foundation stone to the creation of small businesses in the industry.

Kyrö (2018) indicated that entrepreneurship is an activity of developing innovative ways to perform current business activities and these actions can somehow be market in the form of products and services. Pyper (2016) added to this definition by adding an element of profit earning through value creation. However, if we track most entrepreneurs who make a successful business in the world especially the last 10 years, this success was based on the ecosystem that provides support sides for entrepreneurs to start their business with big capabilities. An entrepreneurial ecosystem is a social and economic environment that affects national or regional entrepreneurship. This ecosystem-based on Isenberg (2011) for Babson Global framework contains six important elements that necessary for each entrepreneur which are; Culture, Markets, Human Capital, Finance, Supports, and Policy. Thereby, the entrepreneurial ecosystem can produce
successful entrepreneurs – especially in terms of funding, business opportunities, market, availability of human resources (skills and competency) and chances of linking with other big companies. Companies located in areas that serve as incubators for creativity, innovation, and entrepreneurship get a better chance of success because entrepreneurs require many skills – such as; marketing (the new market for new products/service), finance, production, etc. to start a new business. Nearly all of the internationally successful firms over the past decades, such as Google, Yahoo, Apple, and Facebook, have been located in one of the two start-ups environments – Silicon Valley and Boston.

Definition of SME

The definitions given for SMEs differ from economy to economy based on the nature of the industry that prevails and the businesses that support the economy (AlMaimani & Johari, 2015). The aspects such as financial assets, sales turnover, staff number and level of industrial development determine the level of economic activity (Ahmad et al., 2020). The definitions from developed economies constitute businesses with large number of workforce and greater sales turnover whereas it is totally different in under developed economies (Pauceanu, 2016). The one aspect that differentiates SMEs in opposite sides of economies is the number of employees (OECD, 2012). On a different note it has been argued by Gibson and Van der Vaart (2008) that turnover of business output is more appropriate indicator of SMEs. This differentiation has led to the argument that no single indicator is appropriate representation of SMEs (Al Balushi, 2019) as it is misleading and distorts the definitions. However Kushnir (2010, 2018) state that a significant number of enterprises with 10 to 1000 times mean per capita income, in the country they operate in might constitute a sector that can be identified as SME sector. This categorization is valuable for data collection purposes. However, SMEs are the largest number of manufacturing companies in many supply chains that supply large enterprises (LEs) with manufacturing and support services. SMEs should consider supply chain management (SCM) as a strategic tool for improving their competitive market efficiency. Meanwhile, the roles and types of SMEs will differ depending on the main economic sector of the country – under developed (African countries), developing (Malaysia, Singapore, Korea, Taiwan, Middle East) and developed countries (USA, EU, Japan) – agriculture based, manufacturing based, oil rich, or service based.

Characteristics Entrepreneurship and SME

Drucker (1985) realization of conceptual entrepreneurship and SME along with the definitions provided earlier, it can be assumed that entrepreneur are motivated by wealth to jump into business activity and the most fundamental aspect is the innovative idea that triggers the wealth creation. We can argue that some entrepreneurs are not SMEs but very big companies such as Ali Baba, FB, Tesla, etc. especially technology companies. For example, Elon Musk is focused on technology-based revolutionizing transport on Earth as well as in space. His automaker, Tesla Inc., launched in 2003, is introducing mass-market full-electric vehicles. He landed and studied at the University
of Pennsylvania in the US as a transfer student. Elon's wealth source from Tesla Motors, SpaceX, and Self MadeSpaceX, Musk's rocket company, which now worth more than $31 billion (Haverstock, 2021). “You boil things down to the first principles or fundamental truths in a particular area and then you reason up from there” (Elon Musk).

Jack Ma in the mid 90s got interested in the internet and envisioned this platform as a business opportunity. He invested 20000 dollars he borrowed from his friends and family to invest in a website that provides clients with website access through development. He quickly made a return on his investment and developed many companies but his biggest success came as Alibaba.com as a competitor of eBay. That made him the richest man in China with estimated worth of 33 billion dollars (Gregersen, 2022).

However some differentiating aspects of entrepreneuships and small businesses are: Objective, the amount of wealth creation, speed of wealth building, Management Strategy (Risk), and Innovation and Creativity, and Classification used for definition, new technology (product or service), cross the border, universal product. These attributes are summarized in table (1) as follows:

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>SME</th>
<th>Entrepreneurship</th>
</tr>
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<tbody>
<tr>
<td>Objective</td>
<td>Maintaining regular business</td>
<td>Innovation, High Growth, and Profit</td>
</tr>
<tr>
<td>The amount of wealth creation</td>
<td>small business is for steady income generation over employment</td>
<td>Entrepreneurship is for wealth creation purposes</td>
</tr>
<tr>
<td>Speed of wealth building</td>
<td>Time taken to build a steady income stream is ong and sustainable however it just might not exceed the potential of income generation</td>
<td>Entrepreneuship ventures work faster if the idea is potential and generate wealth with a short time span</td>
</tr>
<tr>
<td>Management Strategy (Risk)</td>
<td>Small business is built around a safety feature and risk minimization principle</td>
<td>Entrepreneurship is all about risking it for wealth or else it simple does not matter</td>
</tr>
<tr>
<td>Innovation and creativity</td>
<td>Small business is about following traditional ways to conduct operations and deviation is not a practice</td>
<td>Entrepreneurship is all about creativity and innovation in doing business and this innovation is continuous and dynamic in every aspect of the operations</td>
</tr>
<tr>
<td>The classification used for definition.</td>
<td>size varies between micro small and depends upon the country of origin</td>
<td>age of entrepreneur's venture is 42 months as per GEM</td>
</tr>
<tr>
<td>New technology (product or service)</td>
<td>The goal is to guarantee longevity and continuous development with the same products or services</td>
<td>entrepreneurship always makes a challenge to the market by introducing an innovative product or feature or become the most recognized brand from the quality of service or production.</td>
</tr>
<tr>
<td>Cross border</td>
<td>SME Most likely to be a local business.</td>
<td>Entrepreneurs like to cross the border with their products or services.</td>
</tr>
<tr>
<td>universal product</td>
<td>While their product is not unique so usually sell as a domestic product.</td>
<td>Entrepreneurial activity leads to be used anywhere in the world.</td>
</tr>
</tbody>
</table>
Based on the explanation above on how to differentiate entrepreneurship for SMEs (Table 1) according to some specific characteristics, Thus, F Okyere (2017), finds that entrepreneurship is the fundamental process that is the foundation of small business and ultimately shape the industry and the large businesses as well. Although the role played by small business and entrepreneurial ventures are similar to certain extent in various economic situation, still the definitions are not similar (ABD, 2012). The aim of this research is to identify the similarities and differences among SMEs and entrepreneurial ventures in an ecosystem of business activity.

Discussion

Similarities (common areas)

The role played by both SMEs and entrepreneurial ventures are significant despite the difference associated with them in comparison to each other (Liñán et al., 2020). The larger portion of business activity in any economy constitutes SMEs whereas the entrepreneurial activity is considered as a job creation engine and economic growth precursor (C. Gauthier & Lowitzsch, 2019; Prouska et al., 2016). In a larger context both play the same role of contributing to the economic activity and wealth creation (Noreen & Junaid, 2015). The opportunity created by both is same that is diversification of economic sphere (Lynch-Wood & Williamson, 2014; Schwab et al., 2019). The support factors effecting SEs and entrepreneurship externally to the success or failure are similar. For example, many researchers agree that the following similarities between SMEs and entrepreneurship can be found despite their differences: policies and legislation, financial support- business support system- technology- culture, human resources (Carland et al., 1984; N. Jones, 2017; Sulistyo & Ayuni, 2020; World Bank, 2020). They both have the same variables. And some number of related factors decide their success or failure (F Okyere, 2017). The authors advise that these variables cannot be ignored in the study of SMEs and entrepreneurship since they significantly decide the outcome of both concepts (R. S. Jones & Lee, 2018).

Differences

While these two concepts overlap, they have the characteristics that make them different from each other. Marchese et al. (2019); Olusegun (2012) state that from the point of view of purpose, entrepreneurs are more focused on innovating new ways to do business where business owners are much more focused on management of the business in traditional ways. Entrepreneurs engage in searching for opportunities in business whereas SME owners lack that (Yadollahi Farsi & Toghraee, 2014). Hence SME owners produce and sell their products whereas entrepreneurs come up with novel solutions in form of products and services (Ferreras-Méndez et al., 2022) as well as skills in how to find a new market (J. Gauthier, 2019). Entrepreneurs need also skills in marketing (the new market for new products/service), finance, production, etc. to start a new business.

SME business requires skill to manage the business properly and stay on course (Kharboutly, 2018). Strydom et al. (2022) stated that SME owners do not conduct the business with intentions of taking big risks like introducing new products in the market.
or taking the product to the new markets altogether. Entrepreneurs on the other hand do all this and the research has shown that entrepreneurs need three main skills: technology skills, business administration skills, and Entrepreneur personal skills (Bosma & Kelley, 2018; Isenberg, 2011; Shepherd & Patzelt, 2017; F. Stam & Van de Ven, 2018). Whereas SME needs for internal organization strategies like Business owner characteristics, HRM, financial management, marketing management, and management process (Al Bulushi & Bagum, 2017; Kharboutly, 2018; Noreen & Junaid, 2015; Szabó, 2006). Thus, table 3.1 summarizes the common areas and the difference between entrepreneurship and SME.

Table 3.1 Similarities and Differences between entrepreneurship and SME

<table>
<thead>
<tr>
<th>Basis of Comparison</th>
<th>Entrepreneurship</th>
<th>SME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Similarity</td>
<td>jobs, economic growth, catering to employment needs,</td>
<td>Policies and regulations regarding fiscal matters, markets, infrastructure, technological and human capital</td>
</tr>
<tr>
<td>External Factors enhance ecosystem</td>
<td>the use of creativity and innovation as the main sources to create and identify opportunities with risk taking</td>
<td>Owners direct involvement in business and risk averting tactics for running a small scale operation (Francis Okyere, 2016)</td>
</tr>
<tr>
<td>Description</td>
<td>Main goal is profitability and exponential growth through innovation and risk taking</td>
<td>no goal to dominate the industry just taking care of business as amintence and source of income</td>
</tr>
<tr>
<td>Key characteristics</td>
<td>Innovation and originality</td>
<td>business managing (organization strategy)</td>
</tr>
<tr>
<td>Focus on</td>
<td>changing things regularly to innovate and take risks</td>
<td>like stability and conducting business as usual for longer time period</td>
</tr>
<tr>
<td>Character attributes</td>
<td>Innovation – opportunities identified</td>
<td>Strategic Marketing, technological management skills, and business owner’s attributes</td>
</tr>
<tr>
<td>Critical internal factors for success</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on the finding from the literature and to summarize the discussion, a framework of the relationship diagram is designed below in Figure 1.

Figure 1. Overlap and Intersection between Entrepreneurship and SME
The model above provides more information to substantiate their discrepancy. The two circles which overlap represent the differences between the two definitions, while the intersection shows their similarity. Despite their differences, entrepreneurship and SMEs play significant roles in an economy's development and growth. SMEs are seen to account for quite a large proportion of the business sector while entrepreneurial enterprises are seen as the drivers of economic growth and job development. However, Owners of SME can just inherit the business from their parents and just carry on the business or they can become entrepreneurs if they change the way the company operates and provide new service or product offerings. The arrow shows that the growth of the business is starting from startups and continue growing till to be whether small or medium or directly to a big company. Therefore, entrepreneurs can be SME but SME is not necessarily entrepreneurs.

Conclusion

The overlap and contradiction in the use of the terminology of entrepreneurship and SMEs among the academia and related stakeholders made this study an urgent necessity. Accordingly, this paper attempted to remove the ambiguity. From the two concepts by comparing the similarity and differentiation traits. The bottom line is that SME and entrepreneurship are two distinct ways to do business and both ways contribute to the economic growth in their own style individually and also in combination. Entrepreneurship has greater focus in creating new businesses whereas SME is more focused on sustaining the established business ideas. Meanwhile, Small businesses usually start small and stay fairly small, providing their owners with a lifestyle, or a career, and a modest level of income, and have little effect on their industries (F Okyere, 2017). However, Owners of SME can just inherit the business from their parents and just carry on the business. SME, which are the backbone of many countries' economies, appear to have no future unless they constantly innovate their products, processes, and business model (Bertello et al., 2022). Meanwhile, they can become entrepreneurs if they change the way the company operates and provide new service or product offerings. In comparison, entrepreneurial businesses have founders with varying motivations and aims. These founders are creative and oriented toward development. Their aim is not to create jobs or work for themselves, but to create value and resources which they will be able to exploit at a future date. Moreover, while entrepreneurship based on global entrepreneurship monitor based on the establishment time period of 42 months and it will transform into an SME depending upon the increased number of employees and established business protocols (Bosma & Kelley, 2018). In this way entrepreneurship is the first step that leads to creation of SMEs and industry. The critical aspect that is common in both scenarios are fiscal, human capital and policy and procedures. Both scenarios have key aspect such as creativity innovation and opportunity identification whereas SMEs have the skills to sustain a business model.
Recommendations

It is recommended that policy-makers, academics, researchers in the field should leave off the indiscriminate use of entrepreneurship and small and medium-sized enterprises because realistic differences between the two terms can be distinguished. The correct use of each concept will facilitate the decision-maker to provide support for each of them. Finally, the research encourages potential researchers to do more investigation to fill this gap, and they can try to link entrepreneurship with SME in one framework with specific elements for each one.

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