

Small Business Research: Upon Finding Definitions of Entrepreneurship, Entrepreneur and Small Firms

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Abstract

The study of Entrepreneurship and small business wealth to research. Although small business is recognized for its role of job creation and employment yet it has suffered from lack of common definition from among scholars. This controversial is not only on small business but on entrepreneurship and entrepreneur with a huge confusion of researchers linking small business to entrepreneurs and entrepreneurship missing the reality that entrepreneurial activities may start at any level from micro to large firms. Also entrepreneurial behavior can be experienced in the readily existing firm. We aim at finding the definitions of these three items viz. Entrepreneurship, entrepreneur and small business. On finding these definitions, we had to go through a number of articles and research published in world class journals which give us a confidence that they are reliable. The definition for small business we adopt the European Community (EC) which concentrate much on head count employees as compared to Bolton Committee definition which has a contradiction of revenue, employees and management. We conclude that, research on these items should be intensified and the contradiction be kept as is useful for widening the knowledge and the field as an area of study.

Key terms: Entrepreneurship, Entrepreneurs, Small business, Bolton Committee, European Community, job creation

2.0 Introduction

There are controversies in defining these three terms namely entrepreneurship, entrepreneur and small business. After thorough analysis microfinance operations and its impact, in chapter one, then it is our interest to provide the definition of these three components as our study is about microfinance and small business. There is a great link between entrepreneurship, entrepreneurs and small business firms though the three are not related. Not all small business firm owners are entrepreneurs and not all entrepreneurs own small firms. Entrepreneurial venture can start at any level (micro, small, medium or large). It is thus our interest to come up with clear focus and provide definitions which will be applicable for matter of this research.

The role of entrepreneurs, entrepreneurship, and small business impacting economic growth and development is well researched and documented. In a work of "*the role of small and micro enterprises on government Revenue*", it was clearly depicted that, small business have greater impact for enabling the governments to provide services smoothly (Kibassa, 2012). What is controversial, is the definition of these three terms. As stated by (Kobia & Sikalieh, 2010; Amit, Glosten, & Muller, 2003), the problem of identifying who is an entrepreneur is caused by controversy in defining entrepreneurship (Kobia and Sikalieh 2010). Non existence of common definition led not only to more confusion, but to raise of different opinions (Shane & Baron, 2008). This indeed has been positive to the field as it helps different researchers from different parts of the world provide different meanings based on the practicability of the areas they search. This chapter therefore is studying those definitions as been provided since 18th century and then we decide on the definition we going to apply for the purpose of this research. It is our opinion that, the controversies over these definitions, should not be taken as a challenge but an opportunity for researchers to have practical meanings based on the set up of their research as well as based on the characteristics of the research participants. Our article has three sections; section one is about an entrepreneurs providing some features which differentiate them from other people in a population, section two is all about an entrepreneurship and the line of demarcation between the three scenario, In section three I describe about small business and coming with a stand for a definition I take in. Conclusion and the suggestion for the future publication work is in section four.

SECTION ONE

1.0 An entrepreneur

The question to ask here is simple, "who is an entrepreneur?" And how can someone differentiate an entrepreneur from other people in a population? From the French vocabulary entrepreneur is a word "entreprenre" provided by their vocabulary means 'to undertake' (Hebert & Link, 1989). Cantillon defined an entrepreneur as an individual who assumes risk by acquiring inventory at certain price and supplying to market at uncertain price and bears the risk caused by price fluctuations in the market. The difference expected being the profit or loss (Bridge, O'Neill, & Martin, 2009). The notion of

risk taking is well praised by other researchers in the field of entrepreneurship who add an intrinsic value of innovation (Schumpeter, 1934).

Risk taking characteristic does not mean every risk. Knight (1921) categorizes risk into two classes the insurable and non-insurable. Insurable risk is that with certainty in return as higher returns bear higher risk than when probability of return is high then it is associated with low risk and the reverse is true. This is what Knight was relating, probability of return from an investment so estimation of risk is made possible (Hebert & Link, 1989). According to Knight, uncertainty is the basic element and starting point when defining an entrepreneur. On this point it is considered that, an entrepreneur as a calculated risk-taker and the recipient of pure profit, where profit is seen as the reward for bearing the costs of uncertainty.

Different approach is experienced from canon of innovation as propounded by Schumpeter (1934). As the field of entrepreneurship is concerned, Schumpeter was the first author to draw attention to the central role of an entrepreneur in innovation process. He argued that, 'an innovator implements change within markets as a result of carrying out new combinations of factors of production'. In his theory of economic development, the entrepreneur does not invent things but exploits them by carrying out new combinations such as the introduction of new products or processes, identification of new export markets or sources of supply, or creation of new types of organization (Carrasco & Perez, 2008).

1.1 Individual characteristics of an entrepreneur

Several characteristics common to entrepreneurs have been identified in entrepreneurship literature. In most cases, entrepreneurs have been found to possess a set of characteristics that are easily categorized into personality, attitudes, behaviors, experiences and skills. Education, experience and family background are common features which can be possessed by any individual. Therefore in this study, wherever these characteristics appear, they are for the purpose of creating a good flow of our work. Other characteristic, need for achievement, innovativeness, risk taking propensity, internal locus of control and self efficacy, are only possible to define on entrepreneur's point of view not every individual.

1.1.1 Education

Education is one of key components of human capital. It is the source of knowledge, skills, discipline, motivation and self-confidence (Cooper, Gimeno-Gascon, & Woo, 1994). Building upon the human capital theory, much research has been done to examine the effect of education on the performance of entrepreneurs and their ventures. The assumption lies in the notion that individuals with a higher level of education are able to manage their firms better than individuals with a lower level of education (Shane & Baron, 2008).

Empirical evidence of education and entrepreneurs reveal mixed relationship (i.e. positive, neutral or negative). There are studies that show positive relationship (Watson, Stewart, & BarNir, 2003; Barringer, Jones, & Neubaum, 2005), while other studies show a negative (Bartlett & Bukvi-i, 2012).

Looking closely at different things, it is not easy to argue the significance of education on entrepreneur's success as it depends on different aspects like an industry the business belongs to (Barringer and Jones 2004). Education is more important and revealed so to entrepreneurs in manufacturing industry than entrepreneurs operating in other industries. Specific types of education is a better predictors of the specific types of business and their performance. Education has different influence when measured based on the factor for measuring, for instance the impact of education to entrepreneur is different when measured for profitability as against sales and different when measured against employment (Jansen, 2009)

1.1.2 Experience

Prior experience is another frequently examined components of human capital after education. Through experience people gather information and develop skills that are useful across different occupations (Ucbasaran, Westhead, & Wright, 2008). To date, various dimensions of prior experience have been found in the literature. But the most frequently mentioned types of experience are entrepreneurial experience, management experience and industrial experience (Unger, Keith, Hilling, Gielnik, & Frese, 2009). Entrepreneurial experience refers to the number of previous new ventures and the role played by entrepreneurs in these ventures. Industrial experience refers to the experience in the industry to which the current firm belongs. Management experience refers to the experience in management regardless of the industry (Bosma, Van Praag, Thurik, & De Wit, 2004; Shane, 2000).

Research concerning human capital acknowledge the importance experience for a successful entrepreneur (Shane, 2000; Shane, 2007). They assert that, prior experience enhances the economic performance of the firm (Shane & Khurana, 2003; Unger et al., 2009). With regard to industrial experience, researchers indicate that people who enter an area with which they are well acquainted have a better chance of being successful in their business (Dobbs & Hamilton, 2007; Basu & Goswami, 1999). They have a better understanding than others of how to meet demand conditions in that market (Shane, 2007). For this reason, these people are more likely to gather information that outsiders cannot gather. Such experience contributes

towards building up the entrepreneur's knowledge base, developing access to market information and business networks, and improving managerial capability. They may also have useful contacts and sufficient experience to know the kinds of products, which are in demand within the context of their business (Smallbone & Wyr 2000).

1.1.3 Family background

Through observation, it is possible to acquire knowledge necessary to start an run own business. Building upon this proposition, researchers have argued that, children of entrepreneurs have more chances of becoming self-employed than other people. Various reasons have been provided as to why the children of entrepreneurs are more likely to be self-employed. These factors are generally drawn from exposure and closure mechanisms (Sørensen, 2007). The exposure mechanisms focus on how the parent's social position, exposes children to experiences and expectations that have a lasting impact on their career choices (Sørensen, 2007). Scholars argue that, children of self-employed parents are more likely to look at self-employment as a viable career choice than their counterparts. Self-employed parents may serve as role models for their children. This role modeling may not only lead the children to value self-employment more highly than other forms of employment but may also encourage entrepreneurial behavior.

A second line of argument emphasizes social closure mechanisms and suggests that children of entrepreneurs may be more likely to succeed in entering self-employment by taking advantage of privileged access to their parents' financial and social capital. In other words, self-employed parents may facilitate their children through social and financial capital, which in turn facilitates entry to self-employment (Sørensen, 2007). This corresponds to the conclusions of (Aldrich, Renzulli, & Langton, 1998) who assert that the children of entrepreneurs may enter self-employment successfully because they have better access (through the parents) to knowledge about entrepreneurial opportunities. For instance, self-employed parents may be better able to provide their children with information about potential suppliers or customers and, as a result, facilitate the successful transmission into self-employment.

It is clear explanation of how family background is influential for creating entrepreneurs. If the children of entrepreneurs have greater entrepreneurial abilities than children whose parents are not self employed, then it is obvious that the children of entrepreneurs will perform better than other children and this is the explanation we looking for (Cooper et al., 1994). For these reasons, it is obvious that coming from an entrepreneurial family, it is likely for starting and subsequently succeed with ventures.

1.1.4 Need for achievement

This scenario is based on need for achievement theory (McClelland, 1961). It asserts that, individuals with a high need for achievement do prefer to solve problems themselves, set targets, and strive to meet these targets through their own efforts (Kirby, 2003). The profounder of theory believes that, individuals with a high need to achieve often find their way to entrepreneurship and perform better than those with a low need for achievement. They spend time considering how to do a job better or how to accomplish something important to them (Chell, 2008). Higher achievers spend time thinking about doing things better, tend to take immediate responsibility for tasks, display initiatives and always want feedback about their level of performance (McClelland, 1965; McClelland, 1987). It is acceptable that, there is a connection between the need for achievement and various aspects of entrepreneurship in both the western and non-western context.

1.1.5 Locus of control

Locus of control refers to an individual's perceived ability to influence events in his/her life. "Internals" believe that they have influence over their outcomes through their own abilities, efforts, or skills, while "externals" believe that forces outside their control determine outcomes. Individuals with an internal locus of control are likely to fight for achievement than their counterparts (Rotter, 1996). Indeed, those with a more pronounced internal locus of control believe that they are in control of their business, and that luck or chance does not really determine what happens to it (Chell, 2008). In entrepreneurship literature, locus of control has been of great interest and has been considered to be one of the most important characteristics of entrepreneurs (Rauch & Frese, 2007; Rauch & Frese, 2007; Rauch, Wiklund, Lumpkin, & Frese, 2009).

1.1.6 Innovativeness

Innovativeness is the component of human personality which helps entrepreneurs foster innovations in their firm. This component emphasizes an active approach to innovation such as the daily effort to improve one's work procedures. Schumpeter (1934) was one of the first authors to introduce the role of innovation into the entrepreneurial process. He perceives innovation as a systematic search for changes, opportunities for new markets, products or ideas. According to Schumpeter, a dynamic entrepreneur is a person who innovates and who makes new combinations (Hebert & Link, 1989).

In addition, Schumpeter went even further and proposed innovation to be a single constitutive entrepreneurial function separating acts of entrepreneurship from other non-entrepreneurial activities (Kirby 2003).

1.1.7 Risk-taking propensity

Risk taking is defined as the practice of doing things that involve risks for a reward (Stewart and Roth 2001). Building upon this concept, different definitions and concepts regarding risk taking are available to date. In entrepreneurship literature, the idea of assuming risks and uncertainty emerged in the 18th century through economic theory developed by Cantillon in 1931 (Kirby 2003). As cited by (Isaga, 2012), Cantillon (1931) propounded that the principal factor that distinguishes an entrepreneur from a hired employee was uncertainty and the risk embedded in self-employment (Zhao, Seibert, & Lumpkin, 2010). Based on this concept, a risk-taker is the person who pursues a business idea with a success probability (Chell et al., 1991). In literature, there are three theoretical positions regarding the effects of risk-taking on entrepreneurship venturing.

The first is based on the notion that entrepreneurs have a higher risk-taking propensity than managers, even though the tasks of both the former and the latter entail taking risks (Chell 2008). Nevertheless, it is believed that entrepreneurs take more risks as opposed to managers because entrepreneurial activities involve working with a less structured and more uncertain set of possibilities (Tajeddini, 2008). This is in line with the argument that, being entrepreneurial and venturing into new fields unavoidably involves errors and a certain degree of risk and speculation (Kirzner, 2009; Schumpeter, 1934)

The second approach is grounded in the motivation theory where the focus is on achievement motivation and moderate risk. This theory argues that a person with a high need for achievement sets challenging goals and accomplishes these goals through efforts and skills, takes personal responsibility for the decisions and is a moderate risk-taker (McClelland 1961). In this regard, it is argued that both managers and entrepreneurs have a high need for achievement, therefore it is meaningless to assume that entrepreneurs take more risks than managers (Kirby 2003). This implies that there is no significant difference in risk taking between managers and entrepreneurs.

The third theoretical position is based on studies which assume that risk-taking is dependent on either the perception of a situation or the perception of an individual (Delmar, 2000). It has been found that risk-taking was dependent on the entrepreneur's age, motivation, business experience, number of years in business and education.

1.1.8 Self-efficacy

The definition of self-efficacy is relatively uniform across literature. It is the belief in one's own ability to perform a given task. In entrepreneurship literature, there has been considerable research designed to examine the effect of self-efficacy. People with high self-efficacy are believed to have motives of starting their own business and lead their business successful than their counterpart (Judge, Jackson, Shaw, Scott, & Rich, 2007; Kirby, 2003; Rauch & Frese, 2007)

Furthermore, it is argued that people with a high level of self-efficacy tend to set challenging goals, persist even in the face of failure, and approach difficult tasks as challenges to be mastered rather than issues to be avoided (Kuratko & Hodgetts, 2001). On the other hand, people with a low level of self-efficacy avoid difficult tasks, tend to have low levels of aspiration and commitment to their goals and give up easily (Kirby, 2003).

In brief, these are characteristics which easily can be used to define and differentiate an entrepreneur from other people. As his study is not about entrepreneurs and characteristics of entrepreneurs, it is our view that, we provide only these characteristics so that we be in better position to develop chapter four (small business growth) and we be able to evaluate how some of these characteristics are capable of influencing growth. When an individual is educated, with experience from entrepreneurial family background, then with intrinsic features of need for achievement, Internal locus of control, innovative, with willing to take risk having high self-efficacy, then it is easy to define this individual as an entrepreneur than someone lacking these features. These characteristics should not be considered in isolation but in its totality as they are inter-related.

SECTION TWO

2.0 Entrepreneurship

An entrepreneur is well defined based on individual characteristics. We have different characteristics, thus expected different definition, it depends upon the author what is his focus. As we witness different opinions and definition of an entrepreneur from different authors it is clear that as old as it is there is no common definition to date. From the above definitions, it seems clearly that there is no agreed definition of an entrepreneur. Consequence of it is well witnessed in trying defining entrepreneurship (Kuratko & Hodgetts, 2001). We provide some of the definitions as they have been provided by different scholars for sake of building our ground of defining entrepreneurship in our study.

Entrepreneurship is an act of assuming risk, by buying at a certain price and selling at an uncertain price, bearing the risk caused by price fluctuations in the market. In line with this, 'entrepreneurship is the ability to deal with risk and uncertainty Cantillon, 1755 in (Isaga, 2012) and (Knight, 1921). As old as it is, it gives us the base that, all what entrepreneurship and entrepreneurs do are subject to risk. Here we accept the risk taking characteristic of an entrepreneur, that dealing with business with a probable chance of success. Schumpeter (1934) provides that, entrepreneurship as way of making new combination, production of new goods, new methods of production, opening business to new markets new supply and new organization. It is the ability to perceive new opportunities and encompasses decisions and judgment about the coordination of scarce resources (Kirzner, 2009).

It is an act of innovation. It involves endowing existing resources with new wealth producing capacity. It is a pursuit of an opportunity without concern for current resources or capabilities. This means the same production with the same resources but in a new way (innovative). It is a creation of a new business. YES, it is the creation of an organization or process by which new organizations come into existence. It is a skill of sensing an opportunity where others see chaos, contradiction and confusion.' This is an ability to take risk, internal locus of control, self efficacy, risk taking and creativity. An individual when turns his characteristics into actions, the result is entrepreneurial venturing and the new existing is the business venture. Entrepreneurship encompasses organizational creation, renewal or innovation that occur within or outside an existing organization (Kuratko & Hodgetts, 2001)

From these definitions, it is obvious that entrepreneurship is an interdisciplinary in nature. Various theories or approaches can be used to understand this diversity. One way of understanding this concept is through the schools of thought from which entrepreneurship can be divided into specific activities (Kuratko and Hodgetts 2001).

2.1 Entrepreneurship schools of thought

Entrepreneurship schools of thought are theoretical means, that provide a means to examine the diversity entrepreneurship (Hebert & Link, 1989; Kuratko & Hodgetts, 2001). They illustrate the actions and key functional processes (Kuratko and Hodgetts 2001). In Cunningham and Lischeron, six different major thoughts have been portrayed as they believed to be important in describing entrepreneurial activities. They describe different thoughts in grounds of; psychological, great person, classical, management, leadership and entrepreneurship. They differ from each other in terms of their underlying beliefs; though, some of them share certain views. For instance, the psychological school of thought and the great persons school of thought both view entrepreneurs as individuals with unique values and characteristics (Cunningham & Lischeron, 1991; Kirby, 2003).

Macro and micro views entrepreneurship school of thought are categories developed by Kuratko and Hodgetts (2001). They put their views six distinct sub-schools of thought, three within each entrepreneurial view. The macro view comprises three approaches (environmental, financial and displacement). These approaches present a number of factors that relate to the success or failure in entrepreneurial ventures. Two important points which are worth noting are that these factors are external to the individual, and are beyond the individual's control. An entrepreneurship has little or no control over external environment.

The micro view comprises three other approaches, namely; the entrepreneurs' trait school of thought, the venture school of thought and the strategic formulation school of thought. These approaches focus on the factors specific to the entrepreneur and over which the entrepreneur has control. They form a task environment which is under control of an entrepreneur. These schools of thought identify the behavior and characteristics of the entrepreneur, which can be used to distinguish an entrepreneur from other people. For example, the trait school of thought is interested in identifying those traits that are common among successful entrepreneurs. The strategy formulation school of thought emphasizes the planning process in successful venture development, while the *venture school of thought focuses on the recognition of opportunities for venture development.*

2.2 Approaches to understanding entrepreneurship at individual level

Studying at individual level requires proper approach. Entrepreneurship studies can be well undertaken at individual level in three approaches. have been used to study entrepreneurship at the individual level namely: the demographic approach, the personality traits approach and the cognitive approach. These three approaches reflect the different views with regard to entrepreneurship.

2.2.1 Demographic approach

Entrepreneurship is influenced by social-cultural factors. These factors are described as age, family background, birth orders, role models, marital status, ethnicity, previous experience and education (Shane & Khurana, 2003; Unger et al., 2009). It has been successfully applied as studies used this approach revealed that; these factors predict the intention of

individuals to perform various activities (Kang and Jin 2007; Shane and Khurana 2003). *The question of “how individuals choose an entrepreneurial career or why some entrepreneurs perform satisfactorily”* cannot be answered without considering previous. It is due to fact that individual’s experience has an influence on development of values, needs and skills. It is well noticed that individuals do not possess all information available in the environment as a result, they have to select and the available information based on their previous experience (Delmar 2000; Shane 2007, Roberts 1992; Chou and Chen 2009). With this reason therefore, it is an understanding that, individuals who are ahead of particular knowledge are more likely to discover opportunities than individuals without such knowledge (Man, Lau, & Chan, 2002; Shane, 2007)

2.2.2 Personality traits approach

This concept is well documented in entrepreneurship literature. Entrepreneurs are assumed to display certain similar traits that distinguish from the general population (Isaga, 2012). Based on this approach, entrepreneurship scholars frequently contend that entrepreneurs display certain similar personality traits. In this regard, there are more than forty personality traits as identified by different scholars (Gibb & Davies, 1990). From literature, these are generally personality traits distinguishable from entrepreneurs to non-entrepreneurs. *They comprise of need for achievement locus of control, risk-taking propensity, tolerance for ambiguity, over-optimism, need for autonomy and innovative behavior* (Kobia & Sikalieh, 2010; McClelland, 1961; Rotter, 1996; Schumpeter, 1934; Stewart & Roth, 2001; Stewart & Roth, 2007)

There is no theory without critics. Entrepreneurial trait approach has been criticized with most of criticisms been attributed to controversial in definitions (Rauch & Frese, 2007; Rauch & Frese, 2007). application of different definitions results in different impacts making results incomparable (Gartner 1988). Different instruments used to measure the same constructs are poorly correlated, thus they lack convergent validity (Kirby 2003 and Chell 2008). On top of that, it is also noted that there are many people who possess certain personality traits, yet they are not entrepreneurs (Kobia and Sikalieh 2010).

Finally, it is suggested that there are many relevant factors that result in venture creation and growth other than personality traits. Therefore, an individual entrepreneur should not be over-emphasized as the focal point of research. In response to the above criticism, entrepreneurship research has turned to more cognitive models, which are suggested to be better in explaining the complexity inherent in entrepreneurial behavior (Bridge et al., 2009).

Apart from its criticisms, yet a number of scholars have argued against its dismissal. Carland, Hoy and Carland (1988) suggest two caveats; first, we must be careful never to propose any action which will close or deter any pursuit of knowledge. In fact, it is only through our disagreement that we can learn. Secondly, even if we demand a rigorous and logical theoretical base and a sound methodological approach from our peers, we must never assume that our knowledge is adequate to close the door of debate on other thinkers. It is suggested that, the question “who is an entrepreneur” is worth asking (Zhao et al., 2010; Rauch & Frese, 2007; Rauch & Frese, 2007; Jenkins & Griffith, 2004)

2.2.3 Cognitive approach

Entrepreneurial cognitive approach moved beyond traits approach by examining how entrepreneurs think, behave and why they do what they do (Delmar, 2000). This approach focuses on trying to understand how individuals perceive and interpret information around them (Shane, 2007). It is assumed under this approach that, decisions made by entrepreneurs are not just based on reality but more on *perceived* reality. It is suggested that behavior is mainly based on how individuals perceive the situation and how it is presented to them (Delmar, 2000 and Kirby, 2003).

To date, cognitive approach has gained broad support in explaining entrepreneur’s behavior. The theory of planned behavior is often used to explain this approach. This theory is an extension of the theory of reasoned action (Ajzen, 1991). The central concept of this theory rests on the fact that behavior is determined by the individual’s intention to act. Subsequently, an intention to act is influenced by attitudes, subjective norms and perceived behavioral control. Ajzen believe that, the more favorable the attitudes and subjective norms with respect to behavior, and the greater the perceived behavior control, the stronger an individual’s intention to perform the behavior under consideration would be.

SECTION THREE

3.0 Small business firms

There is no single uniformly acceptable definition of small firm. This is because “small” firms in different industries have different investment in capitalization and human resources. Small businesses are regarded as small firm sector due to extremely limited resources as compared to organizations. They are different in every aspect from investment to sales and possibly employment. Defining small firms in relation to ‘objective’ measures of size such as employees, sales turnover, profitability, net worth etc., when examined at sectoral level, mean that in some sectors all firms may be regarded as small, while in other sectors possibly there are no small firms.

Small business venture: Is any business that is independently owned and operated, not dominant in its field and does not

engage in any new marketing or innovative practices. A person who owns an enterprises is not necessarily an entrepreneur (Bridge et al., 2009). There is considerable overlap of small business and entrepreneurship concepts although they are not the same. Entrepreneurial may start at any size level, but key is on growth over time. Some new small firms may grow, but many may remain small business for whole of their organizational life time. The distinction here is innovation. An entrepreneur is characterized by some innovative combination of resources for profit.

The Bolton Committee, in 1971, attempted to overcome this problem by formulating what they called an ‘economic’ and a ‘statistical’ definitions. These two definitions have features which describe a small firm on line with investment and market domination (Storey, 2006). Under economic definition, a firm is regarded as small if it has small share in market place, managed by owners in personalized way and it is independent not forming part of large enterprise. Under statistical definition, a firm is considered small, when it can quantify the current size and its contribution to aggregate macroeconomic indicators and innovation, capable of comparing its economic contribution over time and has to enable country comparison of small firms contribution.

However, this definition has encountered a great criticisms. Small business managed by its owner or part owner in a personalized way and not through the medium of formal management structure is almost incompatible with its statistical definition when looking at small manufacturing firm. (Wilkinson, 1999) demonstrate the stages of appointing managers, not simply supervisors and foremen is attained when a firm reaches a size of between ten and twenty workers (Storey, 1994). At this level, owners are no longer the exclusive sources of managerial decisions. It therefore, seen very unlikely that a firm with more than 100 employees will be managed in ‘personalized way’ suggesting incompatibility of both ‘economic’ and ‘statistical’ definitions as the size of the firm would certainly need a ‘formal management structure’.

Building upon the observation of Penrose (1959), (Locket, Wiklund, & Davidson, 2010) provide that, “small and large firms are as fundamental different from each other as caterpillar is from a butterfly. They attempt to identify these characteristics of small firms other than size parse, which distinguish it from large enterprise”. They argue three central aspects in which small firms are different to large firms; uncertainty, innovation and evolution.

Uncertainty: small firms are price takers in the market meaning, they cannot dictate the prices for their products. They confront a challenge of limited customer and product base which enforce them to act as subcontractors to large firms. The relationship between the business and the owner is more closure than it is between the shareholders and the large firm. Innovation of the owner of small firm is therefore a key influence upon small firm performance. Large firm literature emphasizes the importance of control which contradict with that of small firms. Owners (shareholders) of large firms ensure that managers act in their interest, and thus senior managers exert control over junior managers a situation absent in small firms. The central distinction between large and small firms thus is the greater external uncertainty of the environment in which small firm operates together with internal consistence of its motivations and actions.

To overcome these problems, the term “small and medium enterprises (SMEs) has been adopted from European Community definition of small business. Under EC definition, small firms sector is disaggregated into three components namely; micro enterprises, those with head count employees less than ten; small enterprises, are those with head count employees less than fifty; and medium enterprises being those firms with headcount employees less than 250 . European community defines SMEs in three dimensions (i) staff headcount, (ii) balance sheet (investment) and (iii) Annual turnover.

3.1 The Role of Small Business

Small business plays a great role in employment creation. Their overall importance in the economy, their role in innovation, the importance which government attach o “enterprise” e.t.c. The role of small firms in employment creation should not be looked on part of employment policy but also as part of urban and social policy. As revealed in research, small business has a role to enable governments afford the cost of delivering services effectively and efficiently. Small firms do pay tax of which where the government recognize all the tax base it increases its tax revenue which enables it to serve the public efficiently (Kibassa, 2012).

Policy makers continue to identify and support productive, innovative small business that generate employment and promote economic growth. It is argued that, it is not only growth but sustained growth that creates new jobs (Tonge, Larsen, & Roberts, 2000). Small business policy is not to be conducted in a vacuum, rather it must be part of social and employment policy and to place it in a context requires long term research. This is to answer the question, ‘whether efforts should be made encourage the unemployed, many of whom lack business skills to create their own jobs by becoming self employed. Is it reasonable to provide public funds to individuals living in a deprived state to start their own business as a way of creating employment for themselves?.

SECTION FOUR

4.0 Conclusion and future study

This chapter aimed at providing the meaning of three important items to deal with this research. Scholars have confronted controversies in defining entrepreneurship, entrepreneur and small business. However, their confusion have risen out of different context through which they provide such definition. There have been another confusion of linking small business to entrepreneurial undertaking and entrepreneurs, but it has come out that entrepreneurial venturing may start at any level (from micro to large).

This research has chosen the definition to be undertaken for the purpose of this research. It is our position to adopt the EC definition of small business, that wherever phrase 'small business' appear it should be taken as small and medium enterprises (SMEs). Relying on this definition, we are confident that we add value to the field of small business research and in future we will come up with small business growth, what do we know. It will be the work relying on literature yet it will have as much contribution as we added in this work.

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