Small and Medium-Sized Enterprises (SMEs) and Poverty Reduction in Africa

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Strategic Management Perspective

By

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“To my Parents.”
—Aminu Mamman

“I am extremely grateful to my mother Ya Imama Sesay and my family Zainab Sankoh, Ketura, Mil’cah and Manasseh Kanu.”
—Abdul M. Kanu

“My most genuine love and appreciation are given to my lovely mother, wife, and entire family “may Allah bless them”, for their prayers, and substantial support at all times.”
—Ameen Alharbi

“To the loving memory of my father.”
—Nabil Baydoun

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Aminu Mamman, Abdul M. Kanu, Ameen Alharbi and Nabil Baydoun

CHAPTER ONE

INTRODUCTION

During the last and current centuries the world has experienced significant economic development and a rising standard of living (Blackwood & Lynch, 1994; Cypher & Dietz, 2004; Fishman, 2006; Randall & Theobald, 1998; Stiglitz, 2006). Unfortunately, this development is not evenly spread around the globe. In some developing countries, especially in Africa, the standard of living of many people has declined significantly, leading to poverty and social conflict (Cypher & Dietz, 2004). This has led to the realization that poverty and a falling standard of living, if not addressed, can lead to even more serious social and political conflicts around the world. It is against this backdrop that governments and development agencies have initiated a search for solutions to world poverty, especially in developing countries. Initiatives such as the Poverty Reduction Strategy Papers (PRSPs), International Development Goals (IDGs) and Millennium Development Goals (MDGs) are amongst the most high profile initiatives designed to address world poverty in developing countries (Hulme, 2007; ODI, 2010). Central to these initiatives is the realization that the private sector has a key role to play in the eradication of poverty and the improvement of the standard of living of people (IFAD, 2007; OECD, 2006; Olawale & Garwe, 2010). In a report on pro-poor growth, OECD (2006: 10) pointed out that:

> It is important to recognise that the private sector consists of more than formal businesses. Individuals and households, from rich to poor, also operate as private economic actors when they consume goods and services, sell their labour, farm or produce goods and services. Reducing poverty requires greater efforts to address the needs and maximise the contribution of the many informal enterprises, family-run farms and self-employed men and women that conduct business in developing countries.

In fact, in its 2007 report, IFAD acknowledged the changing role of government and the increasing participation of the private sector in poverty reduction. The report describes radical changes in how the poor make a living in developing countries. For example, in some African countries, governments have largely withdrawn from playing a key role in the organization of economic activities. Instead, the private sector is playing an increasing role even in the delivery of government-funded public services such as health and education. Similarly, in the former centrally-planned economies of Eastern and Central Europe, the role of governments has changed, especially in rural areas. These have ceased to be command economies where the state is a dominant actor in the production and marketing of agricultural outputs. Instead, these activities in the value chain have been taken over by the private sector. The Asian continent has not been left behind in this private sector revolution, but rather has–arguably–been at the forefront of it. For example, IFAD indicated that:

> [I]n Asia, subsistence farmers are increasingly able to produce a marketable surplus, and the barter economy is giving way to a much higher level of monetization. And while state-owned organizations are still active in some developing Asian countries, their contribution to rural economic growth has diminished considerably. Equally, government services are being subjected to new market forces and competition from the private sector. Similarly, in Latin America the economic reforms of the last two decades have led to the opening up of the productive economic activities previously dominated by the state. In fact, it is now recognised that the private sector provides most income-generating activities and job-creation opportunities, and has become the driving force for economic growth and poverty reduction in many developing countries. (IFAD, 2007; Garwe, 2010)

Discussing the importance of the private sector in fighting poverty, a report from the OECD (2006:13) suggests that as a contributor to economic growth and employment creation,

> the private sector has a central place in renewed efforts to reduce poverty and achieve the Millennium Development Goals (MDGs). Developing country governments have a strong interest in fostering a business environment that enables the private sector to flourish and fulfil its role as the main engine of growth.

In fact, the Africa Commission Report sponsored by the former Prime Minister of Great Britain, Tony Blair, acknowledged the need to address the poor productivity of the African private sector as a means of job creation and the eradication of poverty on the continent. The Report suggests that:

> Poverty reduction through growth requires a focus on the indigenous private sector, which in sub-Saharan Africa is composed of a myriad of micro, small and medium enterprises, including–the most numerous–the family farm. And it depends on finding ways to help them thrive and grow. Many of these enterprises operate informally. On average, the informal economy in sub-Saharan Africa accounts for 78 per cent of non-agricultural employment, 61 per cent of urban employment and 92 per cent of new jobs. While a daily reality for the majority of people, activities in the informal economy contribute to less than half of GDP. This is because the majority of actors operating in the informal economy are trapped in low productivity activities, where income is low and often irregular. The cost is huge for people's livelihoods, but also for Africa's economies: a productivity cost put at one to two percentage points off growth every year. Marginalised groups and individuals, including migrants, the disabled, and the urban youth, are concentrated in this unregulated part of the economy. (Africa Commission Report, 2005: 231)

1.1 Which Aspects of the Private Sector can Help in the Eradication of Poverty?

Several decades ago, scholars placed the emphasis on the promotion of large-scale enterprises as the major providers of jobs in developing countries. This was apparent in the 19th and 20th centuries when large enterprises were considered to be the engines of economic and technological progress (Klapper, 2002). This approach was adopted by post-colonial governments in Africa through the establishment of gigantic state-owned enterprises as well as the nationalization of foreign ones. Although Small and Medium-Sized Enterprises (SMEs) have also been advocated during the post-colonial era in Africa, when it came to planning to absorb the surplus labour force, much of the emphasis was on developing the agricultural sector and expanding the public sector.

However, the early 1970s witnessed an increased interest in small enterprises as a means of promoting employment in both developed and developing countries (McRobbie, 1981: 103). This interest was manifested by the establishment of SME institutions in a bid to accelerate economic growth and reduce poverty. It is worth noting that in the history of development, the advantages of SMEs have been notably controversial. For example, advocates of SMEs suggested that such enterprises play a very important role in the economy of developing countries by enhancing competition and entrepreneurship (Beck et al., 2004; World Bank, 2004). The competition, they argue, should lead to innovation and the subsequent development of skills and SME success. Beck et al. (2005) further suggested that SMEs are more productive and create more jobs than large enterprises. This view is shared by a number of writers (e.g. Daniels, 1994; Kayanula & Quartey, 2000; Olawale & Garwe, 2010) who indicated that SMEs employ not less than 22 per cent of the adult population in developing countries. We believe this figure is a conservative estimate. For example, Ntsika (2002) reported that in South Africa, Micro Enterprises and SMEs contribute 56 per cent of private sector employment and 36 per cent of the gross domestic product. Also, a few decades ago, Chuta and Liedholm (1985) reported that in Sierra Leone, SMEs employed up to 95 per cent of the country's labour force. In fact, OECD (2006: 28) provided an even stronger argument for the role of the informal sector in economic growth and the eradication of poverty:

> The informal economy forms a large part of the economies of many developing and transition countries. It comprises 42% of value added in Africa, 41% in Latin America and 35% in the transition economies of Europe and the former Soviet Union, compared with 13.5% in OECD countries. The informal economy provides employment and income for many who lose or cannot find work in the formal economy, and it includes a disproportionate number of women, young people and others from disadvantaged groups. For example, it has been estimated that informal employment accounts for 84% of women's employment in sub-Saharan Africa.

Similarly, in developed countries such as the UK where there are more large-scale enterprises, it was reported that SMEs account for 99.8 per cent of all the UK's businesses and provide 56 per cent of non-government jobs. Indeed, Carlsson (1996) and Biggs (2003) argued that SMEs can add dynamism and flexibility to business activities, which will in turn result in improved economic performance. The flexibility of small business structures provides ease-of-entry for persons interested in the SME sector (Amin, 2004) and also benefits those working from home, especially women in highly traditional settings (Floyd and McManus, 2005). Similarly, it has been argued that SMEs are better at using local resources. Thus, resources that would otherwise be wasted will be utilized by small businesses (Amin, 2004; Marsden, 1981; Olawale & Garwe, 2010). This is critical for the development of local economies. An argument has also been advanced that SMEs are able to substitute factors of production and adjust to economic shocks at a faster rate and at a lower cost than larger enterprises (Acs & Audretsch, 1993; Biggs, 2003). Sharing a similar view, Aragón-Sánchez and Sánchez-Marín (2005) stated that SMEs are flexible because of the simplicity of their internal organization which helps them to adopt and respond rapidly to changes. They create dynamism by way of innovating and forming new firms (Beyene, 2002; Biggs, 2003; Olawale & Garwe, 2010). This is a critical issue given the high uncertainty and unpredictability of the business environments of developing countries.

Considerable evidence has been presented over the years to show that small businesses are important in economic stabilization, and that a decline in this sector will have a negative impact on economic growth (Bannock, 1981; Olawale & Garwe, 2010). Luetkenhorst (2004) advanced the view that SMEs are more labour intensive than their larger counterparts in support of the important role of SMEs in the economy. It was also argued that SMEs provide employment and help reduce income inequality. In fact, Gebremariam et al. (2004) examined the impact of SMEs in economic growth and poverty alleviation in the USA. Generally the study found that there is a strong relationship between SMEs, economic growth and poverty reduction. The study further shows that an increase in the percentage share of SMEs' employment had a positive impact on economic growth, thereby reducing poverty. Furthermore, in agriculture-based economies, SMEs provide livelihood opportunities and nurture entrepreneurship. Other advocates of SMEs, such as Todaro and Smith (2003), are of the opinion that SMEs operating in the informal sector can generate surplus income under hostile economic policies such as the denial of access to credit facilities, foreign exchange and tax reduction. Pertaining to SMEs' potential to reduce poverty, Gebremariam et al. (2004) suggested that small businesses contribute to poverty reduction through job creation and economic growth. Robins et al. (2000), also proponents of SMEs, stated that these enterprises have the ability to enrich workers' talents and capabilities. The sector not only provides jobs, but also creates "the prideful sense of being independent" (Pradhan, 1989: 157). These benefits are directly relevant to any effort to eradicate poverty in developing countries, especially in Africa. Experts on African SMEs have also pointed out that SMEs are a significant component of the solution to Africa's development issues (Maas & Herrington, 2006). They maintain that the creation of new, sustainable SMEs is vital to the economic prosperity of Africa, and without them the continent risks economic stagnation (Olawale & Garwe, 2010).

However, in spite of these benefits of SMEs to economic development, there are many opponents who challenge the significance of the role of SMEs in economic development. A number of researchers dispute the argument that SMEs will necessarily play a critical role in economic development and job creation. Their challenge is based on the argument that large-scale enterprises are better at providing stable and quality jobs, higher incomes and more non-wage benefits than SMEs, resulting in a higher standard of living for those they employ (Rosenzweig, 1988; Brown et al., 1990). Other critics, such as Sutton (1997), Caves (1998) and Audretsch and Klepper (2000), share the view that small enterprises have a lower survival capability and their size is negatively related to growth. Audretsch et al. (2000) further stated that small businesses serve as obstacles to economic development by attracting productive and scarce labour from their larger counterparts.

Within these two arguments, there are those who argue that the ultimate goal of SMEs is not to remain small or informal, but rather to graduate into large formal enterprises. In other words, being small and informal is the first step in contributing to poverty reduction. When SMEs formalize, they will at least pay taxes and by so doing contribute to funding the state budget for social support and employment creation. Indeed, formalization can enable SMEs to access state and donor support for the development of the enterprise. Therefore, it can be argued that formalization should be a goal for all SMEs in Africa if they are to ensure a sustainable contribution to poverty reduction. However, this is not to discount the fact that informal SMEs play vital roles in job creation and poverty reduction in Africa. This point will be pursued in the discussions of policy formulation and enterprise management.

1.2 A Further Case for the Role of SMEs in Poverty Reduction

Apart from the inherent benefits of SMEs, there are also other reasons for promoting their development around the world, especially in developed countries. The first reason is the decline of the manufacturing sector in many nations, as reflected in the changing pattern of added value observed in the sector. This has resulted in the dislocation of the labour force from the sector, leading to unemployment and loss of livelihood; especially in those developed countries where the manufacturing sector has been a significant employer. Even within the manufacturing sector, there has been a shift in the economic structure towards service-related manufacturing (UNIDO, 2007). The move towards high-tech-low-labour-intensive manufacturing activities has led to the dislodgement of people from the manufacturing sector.

In fact, UNIDO (2010) has acknowledged the changing pattern of the productive structure of the world economy. The established trend towards service industries observed in the past has been reinforced in recent years. It has been recognized that the service sector has dominated many economies since as early as the 1970s. For example, the service sector represented 58 per cent of world production in 2005. Conversely, the contribution of the agricultural sector fell from 10 per cent in 1970 to 3.6 per cent in 2005. These changes underscore the dominance of the tertiary sector as a key feature of structural change in the global economy. In a nutshell, the world has now reached a stage where economic development, which hitherto relied on the expansion of the manufacturing and agricultural sectors, cannot sustain the growth of the world's population, especially in developing countries. Therefore SMEs, with their bias towards the service sector, have been argued to have a key role in solving unemployment problems generated by structural changes in the world economies (Beyene, 2002; Biggs, 2003; Olawale & Garwe, 2010). The changing pattern of the economy suits the development of SMEs because of the low capital base required to set them up, especially in developing countries. Similarly, there is a high ease-of-entry, which allows the dislodged population from other sectors, such as agriculture and manufacturing, to join the SME sector. The so-called New Public Management in developing countries has led to the massive retrenchment of the workforce in the public sector. This has generated the need to pay attention to the SME sector as a potential solution to unemployment generated by the transformation in the public sector.

The second reason for the growth of the SME sector is the flexibility of SMEs, which enables them to respond to challenges and opportunities in the economy (Amin, 2004; Olawale & Garwe, 2010). This key characteristic has attracted the attention of policy makers and international development agencies in Africa, leading to strong advocacy for the sector leading to the development of SME policies and initiatives (Beaver, 2002; Brinkerhoff, 1999; Dana, 2007; Gibb, 2000; Simon & King, 1999; Manu, 1998). In subsequent chapters of this book, we shall highlight the significance of SMEs in poverty reduction and the role that policy makers, development agencies and SMEs can play to ensure that this objective is achieved.

1.3 The Gap Filled by this Book

In spite of the acknowledgement that SMEs have a significant role to play in poverty eradication, the approach taken by policy makers, development agencies and, dare we say, some experts, leaves much to be desired. In the last few decades, there has been a significant development in SME specific literature which has helped in the understanding of their role in economic and social development. However, we believe that the literature on the issues associated with SMEs' development and their role in poverty reduction is a significant limitation which has led to a compartmentalized approach to SME policy formulation and implementation. This approach has influenced most publications on SMEs, particularly in Africa. There appears, for example, to be a “black box” approach to the acknowledgement of the role of SMEs in Africa’s economic development. This approach seems to assume that when SMEs are established, and–in rare cases–technical training is provided, the operators of the enterprises will deliver the expected economic and social benefits. Therefore, advocacy and support for SMEs are undertaken at the macro-level. Where micro issues are addressed, the focus is largely on the technical training of SME operators. Rarely, if at all, are SME policies, SME development, SME roles and SME management treated in a comprehensive and simultaneous way, nor is the personal development of SME operators considered as an element of SME development strategy. The latter is a key omission, given that not all operators have the required qualities to set up and run successful businesses. In an African context where the levels of expertise and institutional support are limited, SME operators, consultants and even policy makers would need to appreciate the interrelationship between these issues; yet SME books and materials deal with these issues in a compartmentalized fashion. The aim of this book is to address this limitation. The book is based on the argument that for SMEs to contribute to sustainable poverty reduction through job creation, we cannot afford to neglect the internal dynamics of enterprise management, policy making or the personal qualities of SME operators. Therefore, the book will address the personal development needs of SME operators. In fact, it has been reported that the failure of SMEs in Sierra Leone to live up to expectations was largely due to poor management practices rather than a lack of finance (Islamic Development Bank, 1994). However, most books and other materials on African SMEs ignore the internal management of SMEs in favour of policy-oriented, financial and technical assistance issues, which are not sufficient to build a total understanding of the challenges and issues associated with the sustainability of SMEs in Africa.

The following reasons have been advanced to explain the slow progress in the development of SMEs in Sierra Leone. Firstly, there is widespread corruption and the total neglect of the sector. Secondly, SMEs in Sierra Leone lack the necessary foreign and advanced technology needed for viable economic growth. Thirdly, SME owner/managers lack the much-needed capital to set up or expand their enterprises (Islamic Development Bank, 1994; Kallon, 1990). Specifically, micro-credit facilities from the banking institutions, NGOs and other agencies are scarce and often discriminate against SME owner/managers. In addition, poor entrepreneurial skills contribute to the slow development of SMEs in the country as a whole (Islamic Development Bank, 1994). Similarly, the absence of an institutional infrastructure for providing training and support to SMEs jeopardizes the sustainability of the SME sector (United Nations, 2000).

The above example clearly underscores the need to address SME challenges simultaneously from the following perspectives: (1) the role of SMEs in economic development and poverty reduction; (2) the development of an enabling business environment and policies that will ensure the accomplishment of SME roles; (3) the effective internal management of SMEs to ensure sustainability and poverty reduction through job creation and decent wages; (4) the personal development of SME operators. Finally, the book underscores the need to contextualize the four perspectives identified above to reflect the African socio-cultural, institutional and economic contexts.

1.4 Aims of the Book

The main aim of this book is to present a thorough discussion of why and how SMEs can help in the fight against poverty in Africa. Specifically, it will examine the barriers that SMEs face in Africa alongside their management practices. The book will further look at the role of SMEs in development. Another aim of the book is to fill the gap in the existing literature by demonstrating, through case studies, the link between SME management and poverty reduction through employment and income generation.

We hope, that after reading the book, the reader will have answers to the following questions: To what extent can the effective management of SMEs contribute to their potential in reducing poverty? How does spiritual poverty contribute to material and general poverty in Africa? What role can spirituality and system thinking play in policy making and SME management within the context of poverty reduction? What are the appropriate poverty-related policies and initiatives that can enable the development of sustainable SMEs in an African context? How can SME purposes and objectives be developed in a poverty reduction context? How can SME business strategy be developed and implemented in a poverty reduction context? What are the personal qualities needed to operate a successful SME in an African context? What is the unique enterprise management approach that is required to deliver poverty reduction objectives in an African context? How do Africa’s socio-economic and cultural contexts enable and constrain SMEs’ operation?

1.5 Definitions and Classifications

1.5.1 Small and Medium Enterprises

It is widely acknowledged that SMEs are easier to describe than to define (Beaver, 2002; Wickham, 2004). Thus, there is no consensus on the definition of an SME. The majority of definitions or classifications of small businesses are specific to the context within which SMEs are defined or classified (Hallberg, 2000). The definitions vary across countries and regions and according to the size and structure of the economy. For example, the classification of SMEs by the number of employees in countries with large populations, such as China (1.34 billion), India (1.21 billion), the USA (313 million) and Indonesia (237 million), will have a higher cut-off point than countries with smaller populations such as Sierra Leone (6.1 million), Ghana (26 million), Malawi (16 million) and Swaziland (1.2 million). Similarly, the level of economic development can influence the classification of SMEs if the size of capital is used.

In China, SMEs are classified by sector. Manufacturing and construction enterprises with fewer than 2,000 employees, a turnover not exceeding Rmb300 million, or with total assets lower than Rmb400 million, qualify as SMEs. In the retail sector, an enterprise with fewer than 500 employees or a turnover less than Rmb150 million will qualify as an SME. In the wholesale sector, the threshold is 200 employees or a turnover under Rmb300. In the postal/telecommunications and transportation sector, enterprises will qualify as SMEs if their turnover does not exceed Rmb300 million or they have no more than 1,000 (postal) or 3,000 (telecommunications) employees. In the hotel and catering sector, enterprises will qualify as SMEs if they have fewer than 800 employees or a turnover not exceeding Rmb150 million (Hong Kong Trade Development Council, 2012). In comparison to China, with its annual GDP of 9.78 trillion US dollars, smaller African countries such as the Seychelles, Cape Verde, Djibouti, Comoros, and Equatorial Guinea, with populations of less than a million each and a combined annual GDP of 18.8 billion US dollars (IMF, 2011), necessarily classify their SMEs according to their national output and economic activities. Therefore, SMEs are classified according to a number of criteria such as the numbers of employees, the volume of output or sales, and the value of assets employed and energy consumed (ILO, 1998). Nevertheless, the classification and definitions employing the same criteria also differ. For example, in the US, enterprises with fewer than 500 workers are classified as SMEs while in Sierra Leone enterprises with one to twenty employees fall within the definition of SMEs (SLEDIC, 2006). According to Liedholm and Mead (1987), small is a relative phenomenon and definitions change with regard to the use for which they were formulated, and vary within the countries and markets surveyed.

1.6 Some Classifications of SMEs in Africa

With regard to African countries, there are diverse definitions of SMEs, and there is no regional or national consensus on the definition (Sandy, 2003). For example, the Sierra Leone National Industrial Development and Finance Organisation (NIDFO) defines a small enterprise as one owned and managed by Sierra Leoneans, having the potential of employing 1 to 6 workers, and with an investment capital in machinery and equipment not surpassing Le 500,000 (about US$133 equivalent using the 2009 exchange rate). The Sierra Leone Export Development and Investment Company (SLEDIC/SLIEPA) defines the medium as an enterprise owned by Sierra Leoneans with the capability to create employment for 5 to 20 workers, and having a capital investment not exceeding Le 3,000,000 (about US$1000 equivalent using the 2009 exchange rate). The Small and Medium Scale Business Association of Sierra Leone (SMSBASL), in defining small enterprises, uses an employment cut-off point of 1 to 10 employees with a start-up capital of not more than Le 250,000 (about US$75 equivalent using the 2009 exchange rate). In addition, the work of Lidedholm and Chuta (1985) in Sierra Leone defined small enterprises as firms having a maximum of 50 employees.

In Ghana, each major organisation has its own definition of SMEs. For example, the Bank of Ghana, under the Funds for Small and Medium Enterprise Development (FUSMED), defined small and micro enterprises as firms with assets (excluding land) of ¢25 million and ¢5 million in constant 1988 prices (US$100,000 and US$20,000 equivalent) respectively (Osei Boch–Ocansey, 1996: 92). The National Board for Small Scale Industries (NBSSI) considers its working definition for micro and small enterprises as having net assets worth between ¢30 million and ¢300 million (ECU15,000 and ECU120,000) as of June 1996; gross annual sales of between ¢100 million and ¢750 million; and numbers of employees between 10 and 100 persons (NBSSI, 1996).

It is important to point out that classifications of SMEs are subject to change. For example, from a developing country point of view, international development agencies can classify SMEs based on their project objectives. An example of such changes in classification is provided in Box 1-1. It illustrates how the European Union continues to update its classification of SMEs to reflect policy agendas.

Box 1-1. Changes in the Definition of SMEs in the European Union

The new definition introduces three different categories of enterprise. Each corresponds to a type of relationship which an enterprise might have with another. This distinction is necessary in order to establish a clear picture of an enterprise's economic situation and to exclude those that are not genuine SMEs. In general, most SMEs are autonomous since they are either completely independent or have one or more minority partnerships (each less than 25%) with other enterprises. If that holding rises to no more than 50%, the relationship is deemed to be between partner enterprises. Above that ceiling, the enterprises are linked. Depending on the category in which your enterprise fits, you may have to include data from one or more other enterprises when calculating your own data. The result of the calculation will allow you to check whether you comply with the staff headcount and financial thresholds set by the definition. Enterprises that come above these lose their SME status.

The first step to qualify as an SME is to be considered as an enterprise. According to the new definition, an enterprise is "any entity engaged in an economic activity, irrespective of its legal form". The wording is not new. It reflects the terminology used by the European Court of Justice in its decisions. By being formally included in the recommendation, the scope of the new SME definition is now clearly marked out. Thus, the self-employed, family firms, partnerships and associations regularly engaged in economic activity may be considered as enterprises. It is the economic activity that is the determining factor, not the legal form.

Within this category: small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro. Micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro.

(European Commission, Enterprise and Industry Publication, 2005)

It is clear from the various definitions of SMEs that there is no single generally accepted definition of an SME (Storey, 1994). Hence, firms defined as small in one country may be defined as medium or large in another country. For example, in many developing countries, firms with over 100 workers are considered large, whereas Europe has an upper limit of 99-499 for medium enterprises (UNIDO, 1996). Some countries like Ghana consider small enterprises as those employing 6 to 9 workers (EMPRETEC Ghana Foundation, 2002) and Vietnam considers enterprises to be small if they have 50-100 workers. Steel and Webster (1990) define small-scale enterprise in Ghana using an employment cut-off point of 30 workers and also classify SMEs into 3 categories: a) micro–employing up to 5 employees; b) very small–employing 6-9 employees; and c) small–having between 10 and 29 employees (ibid.). The diversity of definitions and classifications demands a clear articulation of the characteristics of SMEs and their environment in order to appreciate their role in poverty reduction, the formulation of appropriate policy to support them, and most importantly, to determine how best to develop SMEs and would-be entrepreneurs so that they can perform the poverty reduction role effectively.

The idea of defining SMEs is further complicated when the informal sector is included. Informal enterprises are those consisting of both employed and self-employed workers who practice legal but unregulated activities with cash or barter as the medium of exchange, coupled with inferior working conditions (Edgcomb & Thetford, 2004; Todaro & Smith, 2003). The bulk of SMEs in Africa falls into this category; therefore despite the difficulties, we will include informal SMEs as part of our definition of SMEs because they cannot be ignored given their prominent role in job creation potential. Indeed, to do so is to disregard more than 50 per cent of the private sector (Hernando de Soto, 1989). Therefore, our discussion of policy recommendations and enterprise management will necessarily include implications for SMEs in the informal sector.

1.7 Poverty: Definitions

Poverty is a multidimensional phenomenon, and any attempt to define it without acknowledging its multidimensionality is bound to be counterproductive (Whelan & Whelan, 1995). Similarly, we would argue that any definition of poverty without regard to the context where the "poor" live, is bound to be counterproductive from the point of view of policy formulation and implementation. Therefore poverty, like SMEs, is easier to describe than to define. A wide variety of conceptual and empirical approaches has been used, but not one has gained universal acceptance (see Callan & Nolan, 1991). Poverty is a multidimensional phenomenon related to the inadequacy or lack of social, economic, cultural and political entitlements. This is reflected in the United Nations' definition:

> Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to, not having the land on which to grow

> one's food or a job to earn one's living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water or sanitation. (UN Statement, June 1998–signed by the heads of all UN agencies)

At the World Summit for Social Development, poverty was defined as the:

> … lack of income and productive resources sufficient to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; and social discrimination and exclusion. It is also characterized by a lack of participation in decision-making and in civil, social and cultural life … poverty in its various forms represents a barrier to communication and access to services, as well as a major health risk, and people living in poverty are particularly vulnerable to the consequences of disasters and conflicts. (United Nations, Department of Economic and Social Affairs: 2005 World Summit for Social Development, Programme of Action)

Some experts have made attempts to operationalize the concept of poverty to enable the identification of those who are poor and what can be done to help them. Probably the most widely applied technique for measuring poverty is the income-based measure (Whelan & Whelan, 1995). For example, the United Nations considers those families living on less than $2 a day to be living below the poverty line. It is worth pointing out that all the dimensions of poverty are interrelated. For instance, income poverty can lead to *health* and *education* poverty; and political poverty (lack of freedom) can lead to economic and education poverty. In most African countries, income poverty is the major challenge for the poor because most of the countries enjoy relative political freedom, albeit with poor governance. Despite such interrelationships and what appears to be a comprehensive perspective on poverty, there is a major omission in the current conceptualization of poverty. One critical element missing in the current conceptualization is *Spiritual Poverty.* The inclusion of the notion of *Spiritual Poverty* in the conceptualization of African poverty is necessary for the following reasons. First, the rampant corruption in many African societies is caused by *spiritual poverty*. There is a *Hausa* word called *Wadatar Zucci.* This basically means contentment with a material and non-material state irrespective of material acquisition. The appropriate translation is *rich consciousness.* In other words, corrupt politicians and public office holders have *poverty consciousness* regardless of their material acquisition–they are *spiritually poor.* Therefore, we cannot tackle income, health and education poverty adequately without tackling *spiritual poverty* amongst those who are in charge of governance and policy implementation. The second reason for the need to include *spiritual poverty* in the conceptualization of African poverty is that policy makers, implementers and SME operators need to be developed to find a deeper meaning to their roles in the wider society, rather than pursuing a professional career and material acquisition to look after themselves, their close families and inner circles. The third reason is that many, if not most economic and social actors such as SME operators and policy makers are not aware, or at best, do not seem to appreciate that they can derive the same pleasure they are seeking from material acquisition, if not more, by developing a *spiritual* approach to their career or livelihood. The final reason for the need to adopt a spiritual approach to the idea of poverty and its eradication in Africa is this: unlike developed countries where there are strong institutions that take the role played by "spirituality", in most African countries, such institutions either do not exist or are ineffective. For example, paying taxes which benefit the tax payer and society as a whole is a "spiritual" act because the tax benefits the tax payer and the wider society. In developed countries people are forced to pay tax whether they like it or not. Similarly, in an Islamic system of governance paying *Zakkat* (similar to tax) is an obligatory act if people earn enough (*nisab*) to warrant payment of *Zakkat*. The proceeds of *Zakkat* are used to look after the *Zakkat* payer and the wider society. This enables the *Zakkat* payer to pursue his/her economic endeavour in an environment devoid of insecurity and social problems. These systems of taxation and *Zakkat* are only possible if there are strong institutions. Therefore, until Africa reaches a stage when institutions become a substitute for individual “spirituality”, there is a strong argument for an innovative approach to addressing the gradual destruction of the African social and economic fabric brought about by rampant income and non income poverty.

Within the African context, this book will argue for the expansion of the dimension of poverty to include *spiritual poverty*. By spiritual poverty we mean (broadly speaking) the tendency or proclivity to disregard or to show no or little concern about the impact of one’s actions on others. The further elaboration of spirituality and the potential benefits of its characteristics within the business context are presented in the next section and subsequent chapters of the book. The book will be arguing that SME operators who are *spiritually endowed* (rather than *spiritually poor*), irrespective of their religiosity or religion, are more likely to develop a better sense of purpose for their business within the context of poverty reduction. The book will also argue that spiritually endowed SME operators would be more likely to treat their employees and clients better and are therefore more likely to offer a better option for sustainable poverty reduction than the *hardnosed* approach currently advocated by experts of ignoring or neglecting the potential impact of Africa's socio-cultural environment on poverty.

1.8 Spirituality and African Poverty

Spirituality is one of the key concepts introduced in this book to contextualize poverty and SMEs in Africa. We adopt the concept of *spirituality in business* to achieve this aim. *Spirituality in business* has many characteristics similar to the concept of *system thinking* in the sense that it advocates the need for decision makers to realise that their actions impact on others and in return affect them in the long run. The choice of this concept (*spirituality*) is largely because of its value laden perspective which is in tune with the African mindset. A typical African, irrespective of religious affiliation, is fatalistic with an external locus of control. Therefore, an understanding of how this background enables and constrains behaviours within the discourse of poverty is crucial. Although the recent discourse on spirituality might have its roots in religions (organized or not), the concepts of spirituality in business and organizations are not about religion (Ashar & Lane-Maher, 2004; Konz & Ryan, 1999). We would like to make it very clear from the outset that in this book, we adopt the notion of *spirituality in business* rather than spirituality as a theological or religious construct (Ashar & Lane-Maher, 2004; Butts, 1999; Cavanagh, 1999; Emmons, 2000; Konz & Ryan, 1999; Thompson, 2000). In other words, the book does not see spirituality as synonymous with religion, nor does the book take any stand on the virtues or otherwise of any religion. If a particular religion is used at all it will be within the context of its spiritual qualities that can enhance SME operators' personal development and business success. Thus, the book will focus on the positive characteristics of spirituality and how SME operators in Africa can harness these qualities to develop and run successful enterprises. The book will also underscore the significance of *spiritual poverty* as the cornerstone of understanding poverty and its causes within an African context.

What then is *spirituality*? Cavanagh (1999: 189) reported a very popular definition of spirituality because of its simplicity. Spirituality is described "as the desire to find ultimate purpose in life and to live accordingly". Emmon (2000: 4) maintained that spirituality is the personal expression of ultimate concern. We use the term ultimate concern loosely in this book to emphasize the tendency for a *spiritually endowed* SME operator to see his/her endeavour as a means to make a difference in the wider community or society in return for pleasure and contentment. In fact, Robbins (Robbins & Judge, 2010) argued that workplace spirituality is not about organized religious practices, nor is it about God or theology. Instead, workplace spirituality, they argue, recognizes that people have an inner life that nourishes and is nourished by, meaningful work that takes place in the context of community. We therefore share the argument advanced in the following quotation:

> It may be useful to think of spirituality, in addition to the other meanings it took on, as comprised of a set of specific abilities or capacities. Spirituality may be then conceptualized in adaptive, cognitive–motivational terms, and, as such, may underlie a variety of problem-solving skills relevant to everyday life situations. (Emmon, 2000: 8)

The above quotation is a window to other characteristics of spirituality. For example, it has been argued that spiritually endowed organizations or individuals have a clear sense of purpose, a sense of community, and are benevolent, trustworthy, respectful and open-minded (Robbins & Judge, 2010). Other characteristics of spiritually endowed people and organizations include: the feeling of connectedness with others and the environment; and a sense of duty and compassion. These qualities are not only in tune with broader African values, they are also essential qualities that if harnessed and used by SME operators, can help in the running of a successful and sustainable enterprise, and by so doing contribute to poverty eradication.

Perhaps it is worth asking; why bring in the topic of spirituality in business in a book that deals with SMEs and poverty reduction? We believe that, given the level of poverty in various aspects of African lives, a more radical and innovative approach to tackling the issue needs to be taken. This approach must necessarily take into account the African socio-cultural context. Africa and Africans are highly "spiritual". Irrespective of their religious inclination, most Africans believe that their daily life and their economic condition are controlled by supernatural powers. In other words, their destiny is not in their hands. Therefore, any attempt to address the issue of poverty must necessarily include the contextualization of the African perspective of life and livelihood. Indeed, the African Commission Report (2005) has acknowledged the need to address the issue of poverty and development within the African cultural context as it points out:

> At the first meeting of the Commission one of the African Commissioners warned us all that ideas and actions not premised on the cultures of Africa would not work. Ask the big question 'What is development for?', and you get very different answers in different cultures. Many in the developed world see it as being about places like Africa 'catching up'. Development is often described as about increasing choice for individuals. In Africa, by contrast, you might be told that it is something to do with well-being, happiness and membership of a community. An understanding of the cultures of Africa shows that development means putting a greater emphasis on increasing human dignity within a community. (African Commission Report, 2005: 113)

Perhaps the box below provides a better summary of the context of African spirituality as it relates to poverty. Failure to acknowledge such a context would be a disservice to all initiatives aimed at poverty reduction on the continent.

Religious beliefs, movements and networks cross the line between material and spiritual experience. They affect all aspects of how people live, including the social, economic and political parts of their lives. Indeed, many Africans voluntarily associate themselves with religious networks for purposes that go beyond a strictly religious aspect. Religion provides the means to understand and adjust to conflict and tragedy such as AIDS. It provides a language of hope and aspiration. These networks are also plugging Africa into globalization. Senegal's growing Islamic Mouride Brotherhood has an international network that provides significant remittances to the country. Saudi Arabia and the Persian Gulf countries have become part of an African trading network as well as destinations for African migrant workers. African cultural and political systems are being affected by the growth of Islamic movements sponsored by foreign states, something which is resulting in market, labour and ideological shifts. Among other examples, for some women in northern Nigeria, Shari'a law offers a far easier access to divorce than does traditional or civil law. In the Congo the Catholic Church is the only reasonable coherent nationwide organisation, and it even functions as a post office in the absence of any working national postal service. People can go to a Catholic Church in one part of the Congo and leave messages to be transmitted to others elsewhere in the country. In Ethiopia, a ruling from the Patriarch of the Ethiopian Orthodox Church that farmers could work on days previously thought of as religious festivals on which work was forbidden, reportedly led to increases of more than 20 per cent in agricultural productivity. (African Commission Report, 2005: 120)