

# Taking the S and the M out of SME: thoughts on the role of the youth as entrepreneurs

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Ladies and gentlemen,

I would like to thank the organizers of the expo for inviting me to say a few words on the role small and medium sized enterprises (SMEs) in economic development. The robustness of the SME as a vehicle for job creation and economic development has again been amplified during the recent global economic crisis. Countries like Germany and Israel, for instance, shed fewer jobs during the “great recession” and also managed to bounce back faster, in part due to the flexibility of the SME business framework in those countries.

In Namibia the potential of the SME sector in job creation and supporting economic development has enjoyed a fair bit of attention since independence. However, what is perhaps more known in Namibia are our laments about why the SME sector does not flourish. Various reasons including lack of a legal framework, lack of access to finance and others have been cited for the poor state of SME development in Namibia.

Today, I would like to focus on what I call “fallacies” about SME development, especially in the context of Namibia. I also call it taking the S and the M out of Small and Medium Scale Enterprises. However, before elaborating on these, let me say a few words about the importance of entrepreneurship in sustainable economic development.

## **The Importance of Entrepreneurship in Economic Development**

According to traditional economic growth models, capital and labour or a mix thereof are the key ingredients of economic development. In other words if we add more labour or more capital, economic growth will increase. If economic development was this simple, we should be able to significantly accelerate Namibia’s economic growth trajectory, given ample capital and labour we have. It is in view of this that new growth theories correctly emphasize the importance of total factor productivity, including the importance of entrepreneurship in sustainable economic development. Without going into the technical details of endogenous growth models, I would like to provide a layman view that is hopefully still consistent with economic theory on what entrepreneurship is really about.

**First and foremost entrepreneurship is about the ability to identify business opportunities and to act on it quickly.** I have often heard the argument that there are no business opportunities in Namibia, hence the persistent outflow of capital, which is basically domestic savings of ordinary Namibians. I do not believe that the argument of no business opportunities holds, because if it was true, how come is

that foreign direct investors are able to find business opportunities in Namibia. Entrepreneurs, whether domestic or foreign, are supposed to identify business opportunities; that is the essence of entrepreneurship. However very closely related to the ability of identifying business opportunities is the importance to act quickly and with determination to get ideas or possibilities identified turned into real business opportunities.

**Second and related to the first point is my personal belief that not all of us are meant to be successful entrepreneurs.** In addition, the abilities to identify opportunities and to act on them, I also believe that one needs to have business acumen to succeed. While business acumen can be honed and developed, I believe that it is to a large extent innate, in other words not all of us are born entrepreneurs, just like not all of us are born musicians or artist. In my “second life”, if something like that exists, I would like to be a very famous pianist, but for now I have come to accept that art is not my talent.

**Third, I believe to be an entrepreneur is hard work.** While there is merit in the principle of smart work, running and maintaining a business is hard work, especially during the start up phase. In fact this is a general truth in life that applies not only to entrepreneurship but to anything else in life. The bottom line is that there is no substitute for hard work. If you want to succeed as an entrepreneur, you better be willing to work hard. You will have to be willing to be first in at mornings (otherwise who will open your business) and last to leave (otherwise who will close you business).

**Fourth, entrepreneurship is about risk taking and therefore it is just appropriate that entrepreneurs get an appropriate return for the risk that they are taking.** I believe that human beings and Namibians in particular tend to be risk averse. However, when entrepreneurs get rewarded for risk taking, some of us have the “audacity” to become jealous. What we often forget is that many entrepreneurs in some instances will risk their livelihood to make things happen. This sentiment can also be extended to the whole concept of black economic empowerment, where there are a lot of negative sentiments about so called “fat cats” that have apparently succeeded because of BEE. While I have my own views about empowerment, I would like to believe that there are people that have political capital but did not dare to venture into business. Equally there are people that are black Namibians that are not “politically connected” but have succeeded in building strong viable and sustainable businesses.

The bottom line about entrepreneurship is that it is not as cozy as it looks from a distance. In real life, it requires ability to identify opportunities, the ability to act quickly on those opportunities, the ability to risk all your earthly possessions to succeed, the ability to work extraordinarily hard and long hours, and to have what I call business acumen.

### **Fallacies regarding SME development**

Let me now say a few words on the fallacies of SME developments, especially in the context of Namibia.

#### **SME is the last resort**

Currently there is a perception that starting an SME is some sort of “haven of last resort” after one has tried everything else. Often the first reaction of university graduates is to seek a cozy public sector or

private sector jobs. More often than not the question is not about what value I can bring to the company, but how much will I earn and most important what are the benefits. Some people even go to the extend to reason that as that “well my salary is not that big, but I have benefits, including medical, pension, ample sick leave in addition to regular leave, and I have a boss that does not really care about what happens in the office”. The perception that establishment of an SME should be a haven of last resort in my view is a fallacy.

In many countries, Israel in particular, the situation is the exact opposite. Young graduates, even before they graduate use their academic research to start very successful companies. This is in particular true for the ICT sector. This can in part be explained by the fact that Israeli universities closely collaborate with local and international industries, and curricula are deliberately designed to provide real solutions to practical problems that companies experience on a daily basis. As a result of this strong desire to innovate, Israel has become the country in the world with the most listing on the NASDAQ after the United States. However, most of these companies started off as SMEs and were later bought up by international conglomerates. In the process, the founders of these companies, in some cases have become billionaires.

The link between academia and industry is only part of the reason why Israeli start up entrepreneurs is so successful. I believe another part of the explanation can be found in the Israeli culture of “never give up”. Let me amplified this with an example from the Old Testament. When David had to fight the giant Goliath, he basically had an attitude of how can I miss such a big person. If David was a Namibian, I am sure that the attitude would have been that there is no way I can defeat this giant, exactly the opposite. We give up even before we try and we have become so innovative in coming up will all sorts of excuses on why we cannot succeed.

### **SMEs belong to the informal sector**

Often our picture about SMEs is that they are informal institutions, carried out by people who failed to obtain employment. This is an unfortunate view that in a way negatively influences our thinking about the importance of SMEs. In other countries SMEs include professional services such as medical, legal, accounting and architectural. We should therefore move away from the notion that SMEs are only for small unbanked informal sector.

### **SMEs fail because of a lack of access to capital**

Another reason often cited on why SMEs fail is lack of capital. While there might be merit in this argument, I do not think that it is entirely true. I think there are exceptional cases where young entrepreneurs in particular might not come up with the necessary capital to secure bank loans. In such cases, it might be possible to explore innovative mechanisms of development finance, including mechanisms that focus on the quality and viability of business proposal as well as intergroup liability as advocated by the cooperative movement. However, by and large SMEs fail not so often because of lack of capital, but because of other factors, including lack of proper business plans, and poor management.

### **SMEs fail because of a lack of experience**

Another perception about SMEs is that they fail because of a lack of experience. Again, I would like to challenge this notion. In the case of Israel people have started SMEs with no experience at all and succeeded. In fact, not all experiences in life are good experience. Experience, while good can also become a deterrent to development. Often people do not like to think outside the box, because of entrenched experiences and bad habits, and in order to succeed it is important to unlearn those bad habits.

### **SMEs are only for the school drop outs**

It is true that Bill Gates was a school dropout and succeeded in building the largest software company in the world. Incidentally, Microsoft also started off as an SME. However, it is important to put the Bill Gates story in context. First, when the Americans refer to school, they include University. Bill Gates was in fact a drop out from Harvard, rated as the most successful university in the world with a very rigorous entry requirement. Second, prior to his entry at Harvard, while still at high school, Bill Gates taught himself how to program and also develop other skills necessary to succeed in the business world. He worked long hours, and in fact some nights he did not sleep. Bill Gates was therefore not your ordinary school dropout. While SMEs provides an entry opportunity for school dropouts, and there are many business personalities that have succeed despite not finishing high school or even primary school, the fact of the matter is that even SMEs need highly skilled people to succeed.

In conclusion, I would like to congratulate all the entrepreneurs who are exhibiting their business talents here today. I applaud your courage to take on the challenges of being entrepreneurs and I wish you all the success.