The Promise of Entrepreneurship for the Future Development of Factor-Driven Economies in Africa

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The Promise of Entrepreneurship for the Future Development of Factor-Driven Economies in Africa

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Abstract

Until recently, the African continent has held positive fundamentals for growth. However, the continent continues to face profound developmental challenges and structural weaknesses that impede sustained and inclusive growth. Largely driven by natural resources and commodities, the growth of African economies has not generated sufficient economic diversification, job growth or development for the majority of its citizens. In recent years, entrepreneurship has been recognised as a key ingredient of sustainable economic growth and quality job creation, and with the promise of resource coordination, businesses creation, and innovation. The question to be put forward is whether entrepreneurship holds the promise for the development progress of Africa. Thus, in this conceptual paper entrepreneurship is proposed as a key essence of economic growth and structural change for the future transition of Africa’s economies.

Key words

Developmental path, entrepreneurship, economic growth, structural change, natural resources
1. Introduction

Entrepreneurship is widely regarded as a hallmark of growth, development and change (Schumpeter, 1934; Kirzner, 1985; Lazonick, 2008; Gries & Naude, 2010; J. Hall et al., 2012). Although entrepreneurship is still undervalued in the field of economic development, progress has been made in establishing an essential link between entrepreneurship and its potential towards structural change and economic growth (Schumpeter, 1934; Kirzner, 1985; Holcombe, 2007; Naude, 2010). Porter and Schwab (2008) explain that the development of stages of economies involve moving from being a primary factor-driven economy to an efficiency-driven economy (efficient productive practices and capitalising on economies of scale) and eventually, an innovation-driven economy (increase in entrepreneurial activity). Falkinger and Grossmann (2005) contend that for the economic transformation to advance from the first stage to the next logical stage, the production of primary goods requires growth, development and structural change. The transition itself is driven by capital investments in entrepreneurial activities (Falkinger & Grossmann, 2005). Entrepreneurship may be a catalyst for the structural transformations particularly in factor-driven economies where there is an urgent need to impinge stagnant structures that are not conducive to productivity and innovation (Lazonick, 2008; AU/NEPAD, 2010; Hall et al., 2012). This implies that all aspects of entrepreneurship enhance the growth process and as a result have the potential to drive structural change and economic growth by creating opportunities for more innovative activities in the economy (Naude, 2010; Kuckertz et al., 2015).

Granted that the majority of African economies are factor-driven due to their primary dependence on natural resources and raw commodity endowments (AU/NEPAD, 2011; AfDB, 2012; IMF, 2012; World Economic Forum, 2013), transformation to a more productive developmental stage (i.e. efficiency-driven economy) seems to be the next logical step if not a matter of urgency for the future sustainable development of the African economies. In fact, the recent unprecedented economic growth experienced in Africa has neither been adequate to translate into economic diversification and commensurate jobs nor fostered rapid social development for the majority of Africa’s citizens (World Economic Forum, 2013). Essentially, engaging in productive activities and mobilising meaningful structural change appear to be areas of priority for Africa to effect pragmatic future changes that might lead to equitable economic growth and social development (Kimhi, 2009; Gries & Naude, 2010). A key challenge is how the African continent can engage in productive activities in order to accelerate equitable economic growth and structural change to move to the next level of economic development for the future Africa and its rapidly increasing young population. This brings us to this conceptual paper, whose broad objective is to make a contribution by enhancing knowledge and initiating discourse of entrepreneurship, economic growth and structural change for Africa’s future developmental progress.

Experience from successful economies has taught us that the transition to activities which promise higher value added requires the emergence of entrepreneurship (Kirzner, 1985; Morris & Lewis, 1991; Lazonick, 2008; Baumol, 1990; Naude, 2010; Hall et al., 2012). The earlier contributions made by Schumpeter corroborated the role of entrepreneurship in radical innovation that leads to more efficient allocation of production factors and thus improves productivity and structural economic change (Schumpeter, 1934). Therefore, recognition of the pivotal role of entrepreneurship as a key driver for economic growth and structural transformation is indispensable (Schumpeter, 1934, Kirzner, 1985; Holcombe, 1985; Lazonick, 2008; Gries & Naude, 2010; Hall et al., 2012; OECD, 2013). At the centre of this conceptual paper is the attempt to offer a better understanding
of the dynamics between entrepreneurship, economic growth and structural change for the future developmental progress of Africa’s economies. An even more significant purpose of this paper is the recognition of entrepreneurship as a foundation for sustainable growth that promises African economies a shift from being a factor-driven economy (low cost efficiencies in the production of commodities or low value-added products) to becoming an efficiency-driven economy (efficient productive practices and capitalising on economies of scale) (Acs et al., 2008; Porter & Schwab, 2008; Gries & Naude, 2010; GEM, 2010; OECD, 2013). However, this does not suggest that entrepreneurship is an end in itself, but, instead, rather a reinforcing process that may drive an equitable growth and transformation agenda. This path toward obtaining broad-based growth and structural transformation is perceived to have the potential to necessitate the diversification of African economies by downgrading from present dominant sectors such as natural resources and commodities.

The discourse on entrepreneurship in Africa is relatively new, not to mention that it is arguably the least represented and most under studied phenomenon in Africa (Naudé, 2008; Anokhin & William, 2009; Sautet, 2011). The dearth of research on entrepreneurship in Africa not only shows a lack of understanding entrepreneurship in Africa but also proves to be an impediment for the development of the continent (Naudé, 2008). Africa is still at an early stage of entrepreneurship development and is as a consequence unable to effectively mobilise entrepreneurship as an engine for economic growth and structural transformation. Interestingly, the literature on development economics in general and the literature on structural economics in particular have also been relatively under-represented, especially in relation to the role of entrepreneurship in the development context (Gries & Naude’, 2010). The intersection between entrepreneurship, economic growth and structural transformation is considerably unexplored, despite the growing recognition that the concepts may be interdependent (Gries & Naude’, 2010). This lack of connection in these promising fields of development offers an opportunity to make further contributions to the business literature on Africa – a region which is relatively neglected in several studies (Gries & Naude’, 2010). Part of the background of this paper is that the endeavour into the study of entrepreneurship in Africa will initiate intense scientific discourse to stimulate the entrepreneurship research base in Africa. Ultimately, within this framework, it is expected that factor-driven economies in Africa may gain some important policy guidelines that could potentially lead them to reach the next logical stage of development: efficiency-driven economies.

The paper is structured as follows: in the next section (section 2), the paper will briefly discuss the current state of growth in Africa including the opportunities and challenges the situation presents. This will be followed by section 3, which will discuss the conceptual views on entrepreneurship, economic growth and structural transformation. Section 4 will further proceed with the discourse and reflections about the promise of entrepreneurship for the future development of factor-driven economies in Africa. Eventually, section 5 will conclude with some key points for the potential transformative future development of African economies.

2. Overview of Africa’s current growth

The step up in Africa’s recent growth has increasingly raised debates about Africa’s future sustainable development prospects (Easterly, 2008; AU/NEPAD, 2010; AfDB, 2012; Devajaran & Fengler, 2012; Naudé, 2012; IMF, 2012a; UNECA/AUC, 2012; OECD, 2013; World Economic Forum, 2013). Africa is a diverse continent with more than 54 sovereign states, with considerably differing economies that can be classified into four specific groups including oil-exporting economies,
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fragile economies, non-fragile low-income economies and middle-income economies (AfDB, 2012; World Economic Forum, 2013). Generally, however, the African continent is endowed with an abundance of natural resources and minerals, which presents Africa with opportunities as well as challenges. Africa’s recent remarkable growth is underpinned by a variety of factors including enhanced macroeconomic management and prudential macroeconomic policies (World Economic Forum, 2013). This has elevated domestic consumption and investment demand, fuelled mainly by rising incomes and urbanisation. As many Africans flock to the cities, disposable incomes have risen, and the demand for consumer and modern goods as well as services is rapidly increasing, thus stimulating economic growth. Africa is one of the most populated and youngest markets in the world, with more than half of its population under 24 years of age. By 2050, Africa’s population of 2 billion will have surpassed that of India (1.6bn) and of China (1.4bn) (OECD, 2013; UNECA/AUC, 2012; World Economic –Forum, 2013). An additional source of Africa’s growth largely stems from a highly concentrated export structure of natural resources and primary commodities, from export of raw commodities and natural resources (World Economic Forum, 2013). Despite the disruptive impact of the recent global economic and financial crisis, Africa’s impressive growth has remained relatively strong (UNECA & AUC, 2013; World Economic Forum, 2013). During the great global uncertainty between 2008 and 2011, the African economy experienced a growth of more than 4 per cent, ahead of Latin America and the Caribbean (3.4 per cent), Europe and Central Asia (0.2 per cent). Interestingly, Africa’s economic growth rate for the year 2014 is projected to remain relatively solid at about 5 per cent (AFDB, 2012; OECD, 2013). These growth prospects raise some interesting possibilities of a positive landscape for Africa’s future development path if dealt with pragmatically. It presents the African continent with a favourable economic landscape to leapfrog towards a broad developmental growth for the benefit of the majority of African’s citizens (OECD, 2013; World Economic Forum, 2013).

Nevertheless, the unprecedented growth across the continent has not been translated into the broad-based economic and social development to uplift the majority of Africa’s citizens (AFDB, 2012; OECD, 2013). Africa continues to face deep developmental challenges including poverty reduction, structural transformation, inequality and high unemployment, particularly for youth and females with too few opportunities to absorb new labour market entrants (OECD, 2013; World Economic Forum, 2013). For instance, estimates show that more than 70 per cent of Africans earn their living from vulnerable employment due to the failure of their economies to provide decent jobs. This could be because primary commodities and natural resources largely drive the recent growth and has low employment intensity with the inability to distribute growth on all segments of the economy (AU/NEPAD, 2010; AfDB, 2012; Devajaran & Fengler, 2012; IMF, 2012a; UNECA/AUC, 2012; OECD, 2013; World Economic Forum, 2013). The continuous reliance on highly concentrated export structure of natural resources and primary commodities entails a huge forgone income through a lack of value addition (García-Peñalosa & Wen, 2008; McKinsey Global Institute, 2010; World Economic Forum, 2013). The reliance of rents from resources and commodities cannot be a long-term engine of growth and development as this limits the creation of value addition, productivity and forward as well as backward linkages to other sectors of the economy - not to mention that the supply of these resources is finite (World Economic Forum, 2013). Consequently, such an economic structure encourages and incentivises rents over productive activities, resulting in a zero-sum game of resources distribution and with the failure to translate growth into economic diversification, job creation or faster social development (Naudé, 2010; World Economic Forum, 2013). Eventually, this could potentially cause instability and conflicts (Stiglitz, 2006).

In conclusion, the key points here are that, despite the strong growth experience in Africa, the continent continues to face profound developmental challenges. What is more, Africa’s dependence
on natural resources and raw commodities reflects some weaknesses that misplace entrepreneurial and innovative energies in its economic structures and the inability to engage in productive activities that could potentially add value to the economy. Moreover, growth, driven by commodities and resources structure is incapable of generating growth and employment needed to translate into the broad-based economic and social development for Africa (World Economic Forum, 2013). For the long term, Africa needs a proactive migration from commodities and natural resources dependence and towards a more sustainable capacity needed for long-term growth. Equally important is the effective use of the resources and commodities growth as a platform that supports the sustainable development path for Africa and its citizens. Ideally, a pragmatic management of natural resources and an effective coordination of the wealth generated from the commodities and natural resources could be mobilised to complement the structural transformation.

3. Conceptual views: entrepreneurship, economic development and structural change

Experience from successful economies has taught us that the transition to activities that promise higher added value requires the emergence of entrepreneurship (Schumpeter, 1934; Kirzner, 1985; Morris & Lewis, 1991; Lazonick, 2008; Baumol, 1990; Naude, 2010; Hall et al., 2012). Given the aforementioned key challenges faced by the African continent, this section seeks to debate on the role of entrepreneurship as a key ingredient of economic growth and transformational change for the future development of Africa’s economies. It anticipates that understanding the nexus between entrepreneurship, economic growth and structural change may be crucial to generating knowledge and discourse among academics and policy makers to eventually lead the future Africa to a more sustainable growth path. Porter and Schwab (2008) explain that the development of stages of economies involve moving from being a primary factor-driven economy to an efficiency-driven economy (efficient productive practices and capitalising on economies of scale) and eventually, an innovation-driven economy (increase in entrepreneurial activity). The premise is that sustaining a structural transformation from a resource-based economy, referred to as a factor-driven economy towards an efficiency-driven economy, should be the next logical development stage for the African continent. On the one hand, a resource-based economic structure takes the economy on a path that can impede entrepreneurial activities (Falkinger & Grossmann, 2005). On the other hand, a structural transformation involves expanding sources of growth and productivity through entrepreneurship to eventually achieve an equitable economic growth (Falkinger and Grossmann, 2005; Gries & Naude, 2010; OECD, 2013; World Economic Forum, 2013).

3.1 Entrepreneurship

Entrepreneurship is widely regarded a hallmark of change, development and growth (Schumpeter, 1934, Kirzner, 1985; Lazonick, 2008; Gries & Naude, 2010; Hall et al., 2012). Evidently, a variety of studies have shown that new dynamic enterprises are vital to job creation, innovation and economic growth (Schumpeter, 1934; Leibenstein, 1968; Baumol, 1990; Lazonick, 2008; Naudé, 2008; Anokhin & William, 2009; Sautet, 2011; Hall et al., 2012). Largely understood as the founding of a new business enterprise in the development context, entrepreneurship is recognised as a key ingredient of economic growth and job creation, and with the promise of
resource coordination, creation of new businesses and the capacity to innovate (Schumpeter, 1934; Leibenstein, 1968; Baumol, 1990; Lazonick, 2008; Naudé, 2010; Hall et al., 2012; Kuckertz et al., 2015). Although entrepreneurship is still underrated in the field of economic development, progress has been made in establishing an essential link between entrepreneurship and its potential towards economic growth and structural change particularly in developing economies (Schumpeter, 1934; Kirzner, 1985; Harper, 2003; Holcombe, 2007; Acs et al., 2008; Naude, 2010). Entrepreneurship as a premise of this study bases itself on the discovery and effective use of opportunities in the market environment (Schumpeter, 1934; Harper, 2003; Holcombe, 2007; Lazonick, 2008; High, 2009; Sautet, 2011). In essence, entrepreneurial activities create innovation that leads to a more efficient allocation of production factors and thus improves productivity and structural economic change (Schumpeter, 1934). The innovative ideas derived through the knowledge of entrepreneurship may be commercialised and used to stimulate economic growth (Schumpeter, 1934; Morris & Lewis, 1991). In fact, innovation oftentimes drives the growth of an enterprise. As a result, a new business enterprise that lacks innovation will hardly be able to drive economic growth. Enterprises need to demonstrate that they can add value that further contributes to the national economy (Lazonick, 2008). It is equally important to note that an enterprise’s competitive advantage comes from its entrepreneurial capabilities to innovate (Porter, 1990). These innovative activities are characterised by the introduction of new products/services or significantly reinventing products/services as well as enhancing the business model while entrepreneurship is perceived as a process of cultivating and diversifying a new or existing venture into a high growth potential enterprise (AU/NEPAD, 2010; Harper 2003; UNDP, 1999; Kuckertz et al., 2015). Innovation is an essential element of entrepreneurial activities, which also enhances the productivity of downstream economic activities, and thus promotes growth and structural change (Schumpeter, 1934; Baumol, 1990; Kirzner, 1985; Holcombe, 1998; Lazonick, 2008).

Entrepreneurs are seen as those who add value by productively exploiting a unique package of resources to create opportunities that contribute to the economy (Baumol, 1990; Morris & Lewis, 1999; Gries & Naude, 2009). Leibenstein (1968) further maintains that entrepreneurial activities are a primary mover from less productive activities to more productive activities in the economy. Entrepreneurship has the creation capacity to mobilise growth. In particular, this creation effect has the ability to reallocate and to revitalise the stagnant resources in the economy to a more productive use while optimising the underemployed human capital (Leibenstein; 1968; Baumol, 1990). Subsequently, entrepreneurship may fill important gaps left by incomplete and/or underdeveloped markets, particularly in imperfect market environments (Leff, 1979). Given the imperfect markets in factor-driven economies (Falkinger & Grossmann, 2005 and Fredrick al., 2010), entrepreneurship has the ability to take a key role in reallocating the underemployed capital labour and resources towards activities that yield more productivity (Leff, 1979; Baumol, 1990). Essentially, this furnishes entrepreneurship with the prominent attribute of being a change agent for growth and productivity in an economy. However, in extreme cases where market and non-market failures are prevalent, it has been noted that entrepreneurs are pressed out of the formal sector into the informal sector (Leibenstein, 1968); this is the phenomenon that is being observed in many emerging economies. The informal markets can be an impediment to innovative competition and equitable growth (Desai, 2009; AU/NEPAD, 2010; Soko & Lehmann, 2010; Botha, 2012).

Productive entrepreneurial activities and innovative growth involves empowering inhabitants with the ability to continually endeavour, seize and harness opportunities for new profitable activities in local and world markets (Harper, 2003). Organising entrepreneurial activities around people not only enhance human productivity but also integrate people in the growth structure (Schumpeter, 1934; Holcombe, 2007). Creating a people-oriented growth may accelerate the human capital
needed for the economic and social development as well as to enhance radical activities to change the unproductive structures and to re-allocate resources to a more productive use (Schumpeter, 1934; Baumol, 1990; Muchie, 2003; Lazonick, 2008; AU/NEPAD, 2010). The entrepreneurial human capital can eventually fuel innovative and productive activities to strengthen economies by creating additional jobs while encouraging wealth creation (ILO, 2011). Entrepreneurial activities encourage self-sufficiency, independence and inclusion in the mainstream growth (Morris & Lewis, 1991; AU/NEPAD, 2010; ILO, 2011). Entrepreneurship perpetuates the process of knowledge spillover for human capital. This can be crucial because knowledge embodied in human capital can be a factor with increasing returns. In Holcombe’s words, “investments in human capital make future investments in human capital more productive” (1998, pp.51). Eventually, achieving sustainable growth implies investing in human capital as prerequisite for sustained economic growth and productivity of firms. Improving human capital has the potential to enhance a firm’s capability to survive, produce, innovate and grow for the betterment of the overall economy (Marsden, 1990; UNDP, 2004).

Entrepreneurial activities can be particularly vital in static economies or stagnant structures where value creation is precluded. In such an environment, this means few opportunities promise little incentives for entrepreneurial activities and thus inhibit innovation and productivity investment. However, in an environment of economic change, entrepreneurial activities continually present themselves resulting in additional opportunities (Holcombe, 1998). Additionally, knowledge expansion may also benefit other firms in the market area in close proximity. As firms’ productivity increases, they become more specialised and start innovating thereby influencing those in close proximity to also innovate in order to gain their competitive advantage (Porter, 1990; Holcombe, 1998; Knoben, J., et al, 2011). The dissemination of knowledge may result in productivity enhancement within the firm that created it and other proximate firms and thus promotes economic growth. In the long run, entrepreneurship activates productivity-enhancing investment opportunities and creates necessary friction in the economic structure to allow additional opportunities that lead to more entrepreneurship (Schumpeter, 1934; Holcombe, 1998; Hall et al., 2012). Holcombe (1998) explains that the production of new goods in the market offers the introduction of an alternative product or an innovation. These innovations may complement each other in a manner that encourages a creation of new products in the market (Holcombe, 1998). In this way, new markets are introduced and the market is enlarged with innovative and new goods. This also facilitates entrepreneurs learning from each other. Hence, introducing new products in the market should also entertain the notion of free market entry (Kirzner, 1997; Holcombe, 1998). Kirzner clarifies, “to induce dynamic entrepreneurial competition we require the fulfilment of only one condition: guaranteeing free entrepreneurial entry into any market where profit opportunities may be perceived to exist” (1997, pp.74). Holcombe (1998) further corroborates the importance of a free market economy which nurtures entrepreneurial activities and constructive competition that leads to innovations. He adds that for the market to function effectively, it needs to be decentralised to allow society at large to participate. He argues that centralisation is not conducive as it inhibits entrepreneurial activities.

In this section, the literature suggests that embracing entrepreneurship-led growth could potentially create a virtuous circle of growth and structural change. The results underline that innovation and productivity are the two main attributes of entrepreneurship that have been found to have a significant positive effect on shaping a virtuous circle of development. By means of productivity and innovation, entrepreneurship acts as a creative agent that shapes and perpetuates an environment conducive to numerous opportunities and eventually lead to sustainable growth in the economy. Subsequently, directly or indirectly, entrepreneurial activities further facilitate structural change.
by reallocating resources away from the least productive to more productive ones. By so doing, this leads to growth, which is then efficiently distributed again by the achieved positive economic structure. On the one hand, entrepreneurship focuses on the creation of enterprises and on the other hand, productivity and innovation creates dynamisms in the growth of productivity of enterprises, which eventually leads to economic growth.

3.2 Economic growth

The economic dimension of the change or shift of an economy plays a central role in the growth literature (Gries & Naudé, 2009). It includes works dating back from Schumpeter (1934), who maintained that economic growth is shaped by the degree to which the economic structure employs scarce resources productively. Schumpeter (1934) argued that the productivity aspect is crucial for the transformation of ordinary activities into innovative activities (Schumpeter, 1934). In light of Schumpeter’s (1934) view, economic growth refers to the shift from the traditional methods of doing things to more modern ones. For instance, the shift can be from an agriculture-based to an industry-based economy, with the general intention of improving the living standards (Schumpeter, 1934; Naudé 2008; High, 2009 and Glinskiene & Petuškienė, 2011). The concept is related to the transformation of the economy created by innovative entrepreneurial activities that nurture the potential for growth (Schumpeter, 1934; Lazonick, 2008). Economic growth mainly depends on the ability to produce products and services that add value to the economy (Schumpeter, 1934; Harper, 2003; Lazonick, 2008). Subsequently, entrepreneurship provides the innovative employment of resources, technologies and enterprising opportunities for the stimulation of economic growth (Harper, 2003). When entrepreneurs take advantage of opportunities in the market, the economic environment advances in a fashion that creates additional entrepreneurial opportunities in the market. This also encourages potential entrepreneurial activities by prompting the alertness of latent yields in the market (Holcombe, 1998). Entrepreneurial activities may be viewed as being capable of altering the business landscape in a manner that it creates and increases entrepreneurial opportunities in the market. Henceforth, entrepreneurial activities promise the creation of new market niches that have a greater capacity of introducing new innovations, in order to achieve quality growth and value to society (Morris & Lewis, 1991; Holcombe, 1998). As a result, this creative change (Morris & Lewis, 1991) of the environment nurtures and exhibits multiply entrepreneurial opportunities (Holcombe, 1998; Naudé, 2008). In this regard, entrepreneurial activities can be recognised as elevating opportunities and aligning the readiness of the market environment in order to facilitate the entrepreneurial opportunities that can be capitalised on and thus creating an engine for economic growth (Holcombe, 1998).

In conclusion, entrepreneurial opportunities are seen as providing a nutritional source of opportunities in the market in order to present new innovations that creatively alter the economic environment to create growth. These innovations are said to have the potential to produce continuous profit opportunities which are seized by entrepreneurs to forge additional opportunities and eventually drive the economic growth process (Holcombe, 1998). This also explains a fundamental link between entrepreneurship and economic growth.

On the one hand, entrepreneurial activities can be seen in view of nurturing economic growth and development. On the other hand, economic growth has the potential to provide a continuous coordination of productive entrepreneurial activities. In view of this, entrepreneurial activities can be seen as an engine for economic growth. Ultimately, this places a greater importance on understanding the environment that nurtures and creates opportunities for continuous entrepreneurial activities for maintaining sustainable growth. Hence this leads us to the next discussion of structural change.
3.3 Structural change

The study on structural change has recently gained attention (Baumol, 1990; Sobel et al., 2006; Bjørnskov and Foss, 2008). However, the intersection between economic growth, structural change and entrepreneurship is relatively under-researched (Gries and Naude, 2009). Understanding structural change starts with the recognition of innovative entrepreneurial activities within the national economy (Schumpeter, 1934; Gries & Naudé, 2009). While structural change involves the rise of productive and innovative activities (Schumpeter, 1934; Gries & Naudé, 2009), it also promises the movement of resources and labour towards newer activities for the overall productivity of the economy. Structural change can be seen as one of the fundamental drivers of economic growth. In this regard, structural change facilitates the reallocation of economic activities away from the least productive sectors of the economy to more productive sectors (Baumol, 1990). As a consequence, this enhances economic growth (OECD, 2013). Once accumulated, growth can be distributed effectively to reach the diverse segments of society by a well-functioning economic structure to improve human welfare. Subsequently, a well-functioning economic structure can be used as a meaningful strategy to alleviate poverty and reduce income inequalities (Hillbom, 2008).

As already noted in the above discussion on growth, entrepreneurship provides the innovative employment of resources, technologies and enterprising opportunities for the stimulation of economic growth resulting in structural change (Harper, 2003; Falkinger & Grossmann, 2005). Structural change can be perceived as a tool for deploying productive entrepreneurial activities to harmonise and coordinate the different parts of the economy in a fashion that they ensure sustainable growth.

In summarising the interdependencies of entrepreneurship, economic growth and structural change, it is apparent that embracing entrepreneurship-led growth could potentially create a virtuous circle of growth and structural change for Africa. These two major output themes, which are in line with our argument that entrepreneurship, growth and structural reform, are somehow interlinked and will be further discussed in the following sections. Productivity and innovation have emerged as additional themes, which are embodied closely in entrepreneurship. Therefore, four propositions emerge that will be elaborated on in the subsequent section:

**Proposition 1:** Entrepreneurship will affect the overall growth potential of African economies; it does so indirectly through its positive impact on innovation and productivity.

**Proposition 2:** Once under way, enhanced entrepreneurship in African economies will also indirectly perpetuate knowledge expansion that encourages human ingenuity and market enlargement.

**Proposition 3:** Subsequently, a virtuous circle of entrepreneurship will spur economic structural reform allowing African economies to transform themselves to the next developmental stage (e.g. factor-driven to efficiency-driven)

**Proposition 4:** This virtuous circle of entrepreneurship in Africa is dependent on the establishment of decentralised free markets.

In light of these propositions, the following section will address the main research question about the promises of entrepreneurship for the future development of factor-driven economies in Africa.
4. The promise of entrepreneurship for factor-driven economies in Africa

At the centre of this conceptual paper is an attempt to investigate whether entrepreneurship could facilitate a pragmatic development path for the majority of the African economies from being a factor-driven economy (low cost efficiencies in the production of commodities or low value-added products) to becoming an efficiency-driven economy (efficient productive practices and capitalising on economies of scale). Secondly, the study attempts to offer a better understanding of the promises of entrepreneurship for the future development of Africa. In order to address these two main questions that form the basis of this study, this section will be divided into two parts.

The first part (section 4.1) will utilise a theoretical framework built from the key themes in order to demonstrate how African economies may use entrepreneurship to shift their economies towards more productive activities. The second part (section 4.2) will be presented using the four suggestive tentative working hypotheses which emerged from the literature as discussed in the summary above. These key themes will be used to reflect on the key promises of entrepreneurship for the sustainable development of future Africa.

4.1 Entrepreneurship-led development path for future Africa

This part of the paper will employ Figure 1 as a proposed framework which is derived from the key themes, in order to demonstrate how entrepreneurship-led growth may be employed for the transitional development path of African economies from being a factor-driven economy (low cost efficiencies in the production of commodities or low value-added products) to becoming an efficiency-driven economy (efficient productive practices and capitalising on economies of scale) (GEM, 2010).

The findings from the consulted literature suggest that, in order for the African continent to engage in productive activities for sustaining equitable economic growth and structural change that would lead to the next level of economic development, entrepreneurship would need to be considered as a foundation for growth. Entrepreneurship is a prevalent key feature of growth that has been consistent throughout the literature discourse.

![Figure 1: The interplay of entrepreneurship, growth and structural change for the future development of African economies](image-url)
The framework is not comprehensive and is based on theoretical findings. This framework represents an applicable paradigm shift in Africa’s approach towards growth. It proposes that placing entrepreneurship as a foundation for growth will gradually move Africa’s factor-driven economy (low cost efficiencies in the production of commodities or low value-added products) to becoming an efficiency-driven economy (efficient productive practices and capitalising on economies of scale). For this particular framework development, the consulted literature suggests two key areas of development for African policy makers including decentralisation and free market entry to encourage dynamic entrepreneurial activities (comprising of productivity and innovation). This is a key component that should be embedded in Africa’s national strategies for achieving equitable and shared growth. This framework development serves as a general starting point in understanding the prospect of entrepreneurship-led growth for the future economic transition of Africa. The framework provides a basic overview towards understanding the interdependencies of entrepreneurship, economic growth and structural change for the policy makers to rethink a more sustainable path for the future development of African economies.

4.2 Entrepreneurial prospects for future Africa

This sub-section presents the four suggestive tentative working hypotheses and briefly reflects on what entrepreneurship may provide for the future development of Africa.

**Proposition 1:** Entrepreneurship will affect the overall growth potential of African economies, it does so indirectly through its positive impact on innovation and productivity.

Embraced as a foundation for growth, entrepreneurial activities promise to exhibit innovation and productivity investment for Africa. This dynamic entrepreneurship promises value-addition by productively exploiting resources to create opportunities that contribute to the economy (Schumpeter, 1934). It acts as a primary change agent, capable of shifting less productive activities to more productive ones in the economy (Schumpeter, 1934; Lazonick, 2008; Naudé, 2010; Hall et al., 2012). The other feature of dynamic entrepreneurship is its innovativeness for the introduction of new products/services or significantly reinventing products/services. The innovativeness feature promises efficient reallocation of production factors to enhance productivity and structural economic transformations for future Africa (Schumpeter, 1934; Lazonick, 2008; Naudé, 2010). Essentially, the key point here is that these two features that prompt entrepreneurship dynamic, have a prominent role of transforming the environment in a fashion that is fertile to growth. With the manifestation of growth, the environment begins to exhibit more growth that eventually triggers a structural change (Holcombe, 1998). As already discussed in the above sections, growth plays a crucial role as it provides a continuous coordination of dynamic entrepreneurial activities that somehow continue to manifest more growth in the economy (Holcombe, 1998). The growth from dynamic entrepreneurial activities enables the structural change to reallocate resources away from the least productive activities to more productive ones (Schumpeter, 1934). This reallocation further exhibits additional growth, which is then efficiently distributed accordingly to all sectors of the economy. This well-functioning or positive economic structure assumes the raising of the living standards of the African society at large (Morris & Lewis, 1991).

**Proposition 2:** Once under way, enhanced entrepreneurship in African economies will also indirectly perpetuate knowledge expansion that encourages human ingenuity and market enlargement.

The knowledge dissemination of entrepreneurship is seen from the growth-proximity perspective. This means that entrepreneurial-led growth economies provide an enabling environment for the
human capital to develop and gain knowledge (Holcombe, 1998). As the entrepreneurial-led growth is undertaken, the proximate inhabitants are integrated within the entrepreneurial environment enabling them to develop abilities to continually endeavour, seize and harness opportunities for profitable new activities (Schumpeter, 1934; Muchie, 2003; Lazonick, 2008). This means that the proximity facilitates a shared knowledge as well as learning from each other. Essentially, the feature of entrepreneurial-led environment is that of attracting and educating its inhabitants (Holcombe, 1998). Needless to say that, due to the fertile environment that promises diverse opportunities, inhabitants are inclined to remain the inputs of growth and knowledge that is disseminated within. However, when the environment is infertile, the inhabitants tend to relocate to more enabling environments. Enterprise proximity is another critical feature that encourages learning spill-over or knowledge sharing. For instance, when enterprises are productive, their innovation leads to specialisation (Holcombe, 1998). As a result, other enterprises in proximity are also forced to compete by introducing new innovations to the market. Eventually, the relevant business environment is organically nurtured into a healthy competition that creates new innovations.

**Proposition 3:** Subsequently, a virtuous circle of entrepreneurship will spur economic structural reform allowing African economies to transform themselves to the next developmental stage.

As already discussed in the previous sections, the interdependencies of entrepreneurship, economic growth and structural change is fundamental in that, entrepreneurship-led growth creates a virtuous circle of growth and structural change. By means of productivity and innovation, entrepreneurial-led growth generates and perpetuates a fertile environment conducive to numerous opportunities that eventually prompts equitable growth in the economy (Schumpeter, 1934; Gries & Naudé, 2009). Directly or indirectly, dynamic entrepreneurial activities further facilitates structural change by reallocating resources away from the least productive to more productive activities (Schumpeter, 1934; Kirzner, 1997). This exhibits growth which is then efficiently distributed by a well-functioning or positive economic structure (OECD, 2013). This implies that the well-functioning economic structure has the capability to distribute growth accordingly to all segments of the economy (Harper, 2003; Falkinger & Grossmann, 2005). The dynamic entrepreneurial activities create a fertile environment that generates equitable growth to eventually transform the economic structure in a positive or well-functioning fashion (Kirzner, 1997).

**Proposition 4:** The virtuous circle of entrepreneurship in Africa is dependent on the establishment of decentralised free markets.

A centralised economy creates a single source of growth, which may inhibit the larger part of the society in Africa from participating and thus benefiting from the economy. Decentralisation entertains a more inclusive system that distributes growth to all parts of the economy (OECD, 2013). For example, in many parts of developing economies, urbanisation is a major challenge. Inhabitants flock to more developed areas in the cities where the economy is often centralised. In contrast, entrepreneurial-led growth integrates the larger majority of the inhabitants into the economy while exhibiting inclusive growth and knowledge (OECD, 2013). Because of the capacity to create growth and a fertile environment for growth, inhabitants are inclined to stay and benefit from growth within their respective environment (Holcombe, 1998). A free market entry embraces free entrepreneurial activities and a return in opportunities for all. This means that society at large has the opportunity to participate in the business environment (Leibenstein; 1968). In a free market environment, entrepreneurial activities are likely to germinate and further create a virtuous circle of
growth and structural change. A free market entry also facilitates a healthy competition between enterprises in the market place (Holcombe, 1998). In cases where there are impediments to market entry, entrepreneurial activities are pushed towards the informal markets. Consequently, this may lead to a lack of innovation and declining growth (Desai, 2009; AU/NEPAD, 2010; Soko & Lehmann, 2010; Botha, 2012).

5. Towards sustained and inclusive growth for future Africa

This section aims to shed further light on Africa’s future potential for sustained and broad based growth. The path towards achieving broad-based growth and structural transformation is perceived to have the potential to necessitate the diversification of African economies by downgrading from present dominant sectors such as natural resources and commodities as well as the expanding informal sector. The growth in Africa needs to be maintained over the long term while also ensuring environmental and social sustainability (World Economic Forum, 2015). This is imperative given that the continent hosts 15 percent of the world’s population with the majority being the youngest in the world (World Economic Forum, 2013). On the one hand, the continent has the advantage of a large and growing consumer market and a young and dynamic workforce. In addition, the current economic structures are mainly characterised by natural resources and primary commodities, insufficient educational levels as well as the lack of human development (World Economic Forum, 2015). The current economic structures pose a challenge of maintaining a growth that can be translated into inclusive economic development. This means that the proceeds of growth should provide decent living standards, quality employment and fair opportunities to better Africa’s rapidly growing population.

A prosperous future Africa needs to be based on inclusive growth and sustainable development. The present structures of the African economies are characterised by primary product dependency, inadequate education and lack of human development capital (AU/NEPAD, 2010). This is also true given that the majority of the African economies are in their first stage of development, i.e. the factor-driven stage. This means that they are primarily based on factor endowments—mainly unskilled labour and natural resources. Notably, growth, driven by commodities and resources structure is incapable of generating inclusive growth and quality employment needed to translate into the broad-based economic and social development for Africa (World Economic Forum, 2013). It is therefore clear that the current African economies need to transition from the resource-driven structures to more productive developmental stage (i.e. efficiency-driven economy) which seems to be the next logical step if not a matter of urgency for the future sustainable development of the African economies. Africa needs to urgently unlock new and more-productive activities to achieve high growth and to create quality employment and income distribution to achieve an inclusive and sustainable growth for its rapidly growing population (World Economic Forum, 2015). The recent social unrests including the so-called Arab springs are some of the indicators for potential threats of instability and conflicts for the African economy if proactive measures are not put in place. Notably, entrepreneurship enhances the productivity of downstream economic activities, and thus promotes growth and structural change for economies (Schumpeter, 1934; Baumol, 1990; Kirzner, 1985; Holcombe, 1998; Lazonick, 2008). Entrepreneurship has the potential to provide growth that can be distributed effectively to reach the diverse segments of society by a well-functioning economic structure to improve human welfare. Entrepreneurial activities can harmonise and coordinate the different parts of the economy in a fashion that they ensure sustainable and inclusive growth.

However, entrepreneurship may be effective in a free market and decentralised economy to allow society at large to participate. Nonetheless, this does not suggest that entrepreneurship is an end
in itself, but rather, a reinforcing process that may drive an equitable growth and transformation agenda. According to Porter and Schwab (2008), public and private institutions and infrastructure would require upgrading and maintaining to ensure they are well-functioning. In addition, it would be important to maintain a stable macroeconomic environment as well as a healthy and literate workforce (Porter & Schwab, 2008). This suggests that it is critical for African governments to proactively focus on the people-centred development and to ensure the people’s participation in the transformation of the continent. The priority is to ensure that society at large has the opportunity to participate in the business environment in order to maintain inclusive economies. Africa must provide an enabling environment for all its citizens to flourish and reach their full potential.

6. Conclusions

The recent growth in Africa has held positive fundamentals for growth. Nevertheless, largely driven by natural resources and commodities, which are engines of strong short-term growth, the unprecedented growth across the continent has not been translated into a broad-based economic and social development to uplift the majority of Africa’s citizens (AFDB, 2012; OECD, 2013). The African continent continues to face profound developmental challenges and structural weaknesses that impede sustainable growth and social development. In recent years, entrepreneurship has been recognised as a key ingredient of economic growth and job creation, with the promise of resource coordination, new business creation, and innovation. The question to be put forward is whether entrepreneurship holds the promise for the developmental progress of future Africa. In this conceptual paper, entrepreneurship is proposed as a key essence of economic growth and structural change.

The results in this study provide pertinent insights for the agenda of promoting entrepreneurial-led growth for Africa. The paper reveals that embracing entrepreneurship-led growth could potentially create a virtuous circle of equitable growth and structural change for Africa’s economies. The two major attributes of entrepreneurship that drive growth and structural reform are innovation and productivity. Once under way, entrepreneurship also indirectly perpetuates knowledge expansion that encourages human capital development and market enlargement. As a result, a virtuous circle of entrepreneurship is likely to emerge with the potential to spur a process of economic structural reform. However, a prerequisite for a virtuous circle of entrepreneurship is prompted by a decentralised free market entry/economy.

Even though entrepreneurship emerges as a key essence of growth, its success is closely tied to the virtuous circle of growth and structural change. The entrepreneurial-led growth has the potential to be a key element in driving growth process through progressive stages of economic development. This could be possible when a creation of a virtuous circle of entrepreneurship increases innovation, productivity and eventually economic prosperity. Subsequently, this might lead to the structural reform with the manifestation of expanded market liberalisation which in turn could lead to further development and success. Embracing an entrepreneurship-led growth for Africa seems to promise broader benefits than simply setting the stage for more rapid growth in the short term, particularly with the reliance on commodities and natural resources rents. In the long run, entrepreneurship has the potential to lay a foundation for sustained growth and, with improved business environment and the virtuous circle of expanded entrepreneurship, business activity, and reform. It promises to underpin the structural transformation of the continent and to drive a prosperous future of Africa based on inclusive growth and sustainable development.
References


