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## DOES INNOVATION MATTER FOR ECONOMIC DEVELOPMENT? AN EMPIRICAL STUDY OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE CITY OF KUMBA - CAMEROON

NGOASONG MICHAEL ZISUH<sup>1</sup>

**ABSTRACT.** In recent years, the development priorities of African countries have centred on private sector development to build a strong market economy that gives a more dynamic role to indigenous entrepreneurs and their innovative small and medium-sized enterprises (SMEs). This paper investigates the potential for indigenous SMEs in Cameroon to successfully emerge as agents of economic development through innovation. The analysis includes the personal characteristics that make up an indigenous entrepreneur as well as the contemporary environments in which SMEs operate. Building on Schumpeter's notion that entrepreneurship contributes to economic development through the interplay of new firm creation, innovation and competition, questionnaires and interviews were conducted with indigenous entrepreneurs of selected SMEs in the city of Kumba, one of the most important concentrations of economic activity in the English-Speaking region of Cameroon. The results reveal that while economic profit is a priority for most entrepreneurs, SMEs exist mainly to alleviate poverty through income generating activities and contribute to economic development by providing employment and income for the poor. The SMEs studied focused on adapting, imitating and modifying existing innovations rather than pursuing genuine Schumpeterian innovation. This suggests that innovation is not a priority for the SME sector and therefore policies aimed at catching up with modern technology should be the central focus in providing assistance for indigenous entrepreneurs and these are suggested in this paper.

**KEYWORDS:** Indigenous entrepreneurship, innovation, economic development, small and medium-sized enterprises, Cameroon.

**JEL CLASSIFICATION:** O31 - Innovation and Invention: Processes and Incentives

### Introduction

Over the last two decades the development priorities of African countries have centred on private sector development and policy reforms to build a strong market economy that gives a dynamic role to entrepreneur (Masden, 1990). The World Bank (2001) views entrepreneurial activities in small and medium-size enterprises (SMEs) as major contributors to job creation with the potential to alleviate poverty in Africa. Entrepreneurial activity in SMEs contributes significantly to the provision of income (Mead and Daniels, 1998), creates employment (Willer, 1999), promotes industrialization (Schmitz, 1992) and helps reduce rural exodus prevalent in developing countries (Wohlmuth, 2004). Although SMEs employ between 17% and 27% of the adult population in Sub-Saharan Africa (Sandy 2004), most SMEs exist out of necessity (Acs,

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2006) due to low returns to scale, high level of unemployment, and the absence of better alternatives (Sandy, 2004). This necessitates a shift from traditional to more innovative approaches in the SME sector that can offer income-generating opportunities. Before this can happen, region-specific studies are needed to understand the connection between entrepreneurship and economic development via innovative SMEs.

Theoretically, entrepreneurship contributes to economic growth (Reynolds et al., 2002), which in turn reduces inequality and poverty (World Bank, 2001) – indicating a connection between entrepreneurship and economic development. Schumpeter, in various writings proposes that innovation provides this fundamental connection. He argues that innovative entrepreneurs create new firms/processes, which in turn create jobs, stimulate competition and increase productivity through innovation (Schumpeter, 1934). In the context of African countries, despite the extensive use of words like *innovation, entrepreneurship, competition and new firm creations*, classic theories of economic development have failed to emphasize the entrepreneurship aspect considered to be one of the major components of development. For example, previous studies on Africa define innovation as imitation, copying or adaptation of existing Western technology (Redlich, 1955). In addition, African entrepreneurs deal with unstable and unfavourable political and economic conditions, insufficient infrastructure and unpredictable markets all of which generate comparatively higher business risks (Brautigam, 1994). However, MacGaffey (1994) argues that despite this inimical climate, entrepreneurial opportunities often appear and reappear and Africans have repeatedly used them to create new and successful SMEs. Unfortunately, she notes, most of these SMEs operate in the informal (illegal) sectors of the economy making it difficult to generalize the personal characteristics of an indigenous African entrepreneur and the extent to which economic development is dependent upon innovation within SMEs.

Over the past decade, Cameroonian politicians, just as their counterparts in many African countries, have had great hopes on innovative SMEs contributing to economic development. Efforts to revitalize the SME sector culminated with a Presidential Decree No. 2004/320 of 8 December 2004, creating the Ministry of Small and Medium-Sized Enterprises, Social Economy and Handicraft (MINPMEESA) to define and implement government policy relating to SMEs to boost the economic growth through the promotion of the private sector<sup>2</sup>. However, existing documentation barely distinguishes profits from non-profit and commercial from community-based enterprises. This gives the impression that the hopes of the government are exaggerated or at least overstated. This paper therefore investigates the extent to which Cameroon's indigenous SMEs are innovative and the specific problems that must be solved for them to serve as agents of economic development. The empirical research is based on a qualitative study with owners (entrepreneurs) of selected SMEs in the city of Kumba, the most important concentration of economic

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<sup>2</sup> MINPMEESA 2004. Ministry of Small and Medium-Sized Enterprises, Social Economy and Handicraft, Cameroon

activity in English-Speaking Cameroon and a melting point for business persons from neighbouring Nigeria, Gabon and Equatorial Guinea.

To understand the role of innovation in the relationship between entrepreneurship and economic development, it is necessary to examine the historical importance and functions of the entrepreneur as a driver of the process of economic development. Cantillon (1931) describes the entrepreneur as an 'arbitrageur', a merchant who bears risk, but whose main income consisted of arbitrage earnings from buying at certain prices and selling at uncertain prices. He argues that, successful entrepreneurship means alertness to business opportunities since *'every day one sees some of them (entrepreneurs) become bankrupt'* (Cantillon, 1931: 51). Say (1803) extends the 'entrepreneur's action' to the combination of production factors and controlling of managerial functions in the organization. Unlike Cantillon, Say (1803) argues that by placing special and simultaneous emphasis on the specific product and level of consumer demand the activities of the entrepreneur create utility that leads to the production of wealth. Marshall (1890) defines an entrepreneur as one who possesses general (family background and education) and specialised abilities (knowledge of the trade, foresight to discover and take inherent risky opportunity) and who is *"a natural leader of men"* (Marshall, 1890: 298). He argues that, *'those business men who have pioneered new paths have often conferred on society benefits out of all proportion to their own gains, even though they have died millionaires'* (1890: 598). By describing the entrepreneur as a 'host' who supplies commodities and provides innovation and progress in a country, Marshall sees innovation as an exogenous determinant of economic development.

In *The Theory of Economic Development*, Schumpeter (1934) argues otherwise, that innovation is an endogenous process that drives economic development. In various writings, Schumpeter directly equates the entrepreneur to the role of an innovator who causes and asserts new combinations of production factors and technological change by doing more with the same amount of resources. Schumpeter (1911/1934) illustrates that, through *creative destruction*, firms continually replace old rules with new rules, disrupt old ways of production while adopting a relative competitive environment. On the other hand, in *creative accumulation*, entrepreneurs enter and challenge established firms using their new ideas (Schumpeter, 1912/1946). The focus of Schumpeter's analysis is *new combinations* (product, method of production, markets, sources, or organisation) that chart economic development and which the entrepreneur must possess leadership (the ability to direct and supervise) and persevering qualities to achieve. Knight (1921), like Schumpeter, argues that: *'with uncertainty present...the primary problem or function is deciding what to do and how to do it'* (Knight, 1921: 268). Therefore, good judgement, self-confidence, forecasting qualities, luck, belief in one's good fortune and ability to judge one's own personal qualities in relation to competitors become additional determinants of successful entrepreneurship.

Following Schumpeter's ideas, later theorists began to question the origin and nature of a business opportunity, the ability of the entrepreneur to successfully identify and satisfy an opportunity, and how to measure the impact of entrepreneurship on economic development. For example, Drucker (1985) identifies independent start-ups

as the most important ways of exploiting new opportunities. SMEs fall in the category of independent start-ups in many countries and should therefore play an important role in the creation of new combinations of products and processes. Baumol (1993b: 197) argues, *'even if entrepreneurs are not in complete control of our economic destiny, they influence its direction as few, if any others, are able to do'*. With savings and investments locked in a vicious cycle of poverty (Saini, 2001) and efficient financial institutions largely absent, countries like those in Africa have failed to achieve any recommendable level of entrepreneurship. This forces people to engage in necessity entrepreneurship (subsistence and survival) due to a perceived absence of better alternatives (Reynolds, et al., 2002). Acs (2006) illustrates that developing countries experience a negative relationship between entrepreneurship and development since people would prefer wage employment than creating innovative enterprises with associated risks.

To understand entrepreneurial activity in SMEs as a *cause* of economic development, this paper focuses on *new firm creation, innovation and competition* as defined by Wennekers et al. (1997: 54): new firm creation as the *'ability and willingness of individuals [...] to perceive and create new economic opportunities'*, innovation as the process by which entrepreneurs *'introduce their ideas in the market in the face of uncertainty and other obstacles'* and competition is a process by which entrepreneurs *'compete with others for a share of that market'*. In terms of contributions to economic development, Feldman et al., (2002)'s argument is used as an extension to Schumpeter's analysis. They argue that, entrepreneurship is an innovation process involving the organization of resources to produce an output or innovation that is of economic value to both owner (entrepreneur) and user (society). To them, innovation contributes to economic development in terms of value added to SMEs and spillovers to society.

Therefore success in entrepreneurship depends on the ability of entrepreneurs to innovate (initiate change or adapt to unpredictable changes) in the economy. By adapting and changing products to suit their local markets, Babo (2004) stresses that African entrepreneurs act innovatively to influence the structural forces of competition to their favour. They also use their superior knowledge to reduce a surplus in demand in a profitable way on the basis of their supply function and offer the chance for social rise or employment creation (Wohlmuth et al., 2004). Thus, the key issue explored in this paper are the value added to SMEs as determined by the extent to which they can survive and grow and spillovers to society, evaluated in terms of job creation and the impact of developments within the SME sector to other sectors of society. Section two is devoted to material and method while results and discussions are presented in section three. Concluding remarks are presented in section four.

## **Material and Method**

### **Overview of Developments in the SME Sector in Cameroon**

Cameroon is a rapidly changing middle-income developing country located in Central Africa around the Gulf of Guinea. It sustains a microcosm of equatorial and tropical geographic spaces, resources and multi-ethnic human diversity that make it one of the most self-sufficient in food production in Africa. Development of the oil

sector and progress in agriculture in the late 1970s and early 80s led to an extraordinary annual growth rate that placed the country among the twenty safest countries in the world for foreign investments (Ndongko, 1986). Unfortunately, a collapse in world market prices for major exports and failure of the structural adjustment programme (SAP) led to an economic crisis in the late 1980s that affected all parts of the country (DeLancey and Mokeba, 1990). Despite high external debts, insecurity, unemployment and corruption, massive structural reforms by the government in the early 1990s have stimulated domestic economic activity; increased literacy rates and promote private sector activities (EIU, 2003).

Austen (1983) explains that with the abolition of slave trade, indigenous Cameroonians could collect and trade palm oil (the dominant product) for foreign goods (such as guns, gunpowder, scarlet uniforms, top hats) with European traders and therefore signify first instances of entrepreneurial activity in Cameroon. However, successive colonial masters (Germany followed by France and Britain) continued to depict indigenous Cameroonians as idle people unable to perform any productive work beyond manual labour in agricultural plantations (Michel 1970). As a result, Colonial masters focused on producing and exporting agricultural raw materials, importing manufactured goods for consumption and machinery for agricultural production (Awa, 1993). Following independence (1961), the government began to recognise the importance of the SME sector through the crafts sector and a number of surveys with a view to balancing economic and social development. Finally, in the mid-1980s, the government allowed for the establishment and promotion of independent private enterprises in the country (Awa, 1993), a move that helped to create an environment that is today arguably conducive for SMEs to survive and grow.

Although there is no specific trade policy for SMEs in Cameroon, a number of policies exist to promote their activities and ensure fair practices in the market – delegation of the controls function in some professions to the practitioners themselves as opposed to the State, promulgation of laws governing new businesses, introduction of two new taxation systems suitable for SMEs, ratification of the treaty on the Harmonization of Business Law, tax and customs reforms, reform of Investment Code and Labour Code. However, without any single, formal instrument setting forth guidelines and objectives, few enterprises have benefited from this development because of lack of information and sensitisation such that the performance of SMEs remains poor (Marie et al., 2002)

According to Marie et al., (2002) some policies restructuring the institutional framework in the private sector have been quite successful. For example, The National Employment Fund (NEF) created 5000 jobs, 1119 being self-employment projects and micro enterprises six year after being established in 1992. The Central Unit for Rural Organization Reforms (CUROR) has set up technical and financial support structures for producer organizations in rural and urban areas (with 20.000 cooperatives and CIGs registered by 1998) and has created a rural organization support fund (FONDAOR) to increase the efficiency of rural

organizations through subsidies. The SME Promotion Priority Programme promotes SMEs, handicrafts and cotton production, as well as improves training levels, working conditions and income levels for crafts persons, small business promoters, and apprentice programmes. In addition, private structures - exclusively foreign NGOs work in partnership with public and private agencies to provide credit, research and consulting facilities to producers and savings societies.

It is difficult to assess the contribution of SMEs to the Cameroonian economy because of inadequate reliable data consisting of scanty surveys conducted by State departments in the past. For example, Marie et al., (2002) report a PECTA survey in 1993, showing 260.000 micro enterprises in Cameroon with 1.200.000 employed persons in 1991 (23% of active population and 39% of active urban population); an ECAM survey in 1996 showing the SMEs sector as the second contributor to poverty alleviation for medium-income households (35.6%), ahead of the public sector. In 1993, for example, each SME in Cameroon employed an average of two apprentices, which is more than double the total head count for secondary and formal training for the same period (PECTA, 1993). Despite these contributions, several challenges exist that threaten the performance of SMEs - inadequate infrastructure to support important elements of development; lack of a strategic plan setting forth institutional policy, development objectives and intervention strategies; shortage or instability of technical support staff, contradictory methodologies and ethical approaches; fragile financial policies. In addition, socio-economic obstacles - insufficient information on raw materials, unreliable and narrow markets, conflicts with administrations in areas such as tax and application of regulations, inability to obtain contracts from large enterprises and corporations and insufficient start-up capital cause prospective indigenous persons to drop any business ideas or operate in the informal sector to avoid taxes, social security and administrative formalities.

More recently, the government has created a new Ministry of Small and Medium-Sized Enterprises, Social Economy and Handicraft (MINPMEESA) to define and implement government policy relating to SMEs. The objectives of MINPMEESA is to build the capacity of actors and improve domestic competitiveness and private business ownership rooted in market opportunities; restructure the institutional and legal framework and set up financial institutions endowed with guarantee mechanisms to improve access to financing and other information. For this to be possible, it is important to understand the local features of entrepreneurship and the potential for innovative activities in the SME sector.

### **The research setting**

The city of Kumba is located around the centre of the South West Province (SWP), one of the two English-Speaking regions of Cameroon (the other being the North West Province). It connects five of six administrative divisions that make up the SWP, a position that makes the city the centre of economic and business life in the province. With about 106.000 inhabitants, it represents the seventh most populated city

in Cameroon comprising approximately 14% of the population in the SWP<sup>3</sup>. The population of Kumba is highly heterogeneous with several ethnic groups origination all over the national territory. This geographic proximity and market potential has made the city one of the most cosmopolitan urban region of Cameroon and a melting point for business persons from neighbouring Nigeria, Gabon and Equatorial Guinea.

Socio-cultural and economic life is fairly distributed throughout the city although there is a concentration of business life in the city centre. Agriculture dominates the city with numerous peasant and smallholdings producing palm products, cocoa, coffee and food crops. In addition, crafts and small-scale enterprises constitute the main economic power and driving force for employment and vocational training in the city. An estimated number of over 1000 different craftspeople and more than 3000 other small enterprises exists in the city. Thus, unlike most other cities in the English-Speaking region of Cameroon, economic activity and modernization is quite advanced in Kumba. The huge economic inequality common in most provinces in Cameroon has led to massive migration of different ethnics groups especially from the North West Province and neighbouring Nigeria to seek better opportunities, and this is often seen as source resentment from the native population of Kumba.

### **The research process**

This paper uses a qualitative research approach to add to existing understanding (Bowden, 1995) about the intentions, the actions, and the expectations of indigenous entrepreneurs on the one hand, and the contribution of SMEs to economic development on the other. Data was collected through the “snowball effects” (Bijker, 1995) and “following the actors” (Latour and Woolgar, 1986) approaches have been used. Researchers “roll a snowball” to identify a preliminary set of relevant social groups to be investigated. Alternatively, one can “follow the actors” to listen to what they say, observe what they do and re-create the construction process. During the fieldwork, an appreciable 100 snowballs (closed-ended questionnaires) were rolled and twelve actors – two from each of trade, construction, transport, leisure, manufacturing and services – were identified for a follow up interview. The interview consisted of semi-structured questions as participatory observation within business enterprises and the general business environments (Hammersley and Atkinson, 1994) for the empirical analysis.

The fieldwork was performed in two phases: questionnaires (2006-07-01 to 2006-08-20) and interviews (2006-08-20 to 2006-09-20). Information on SMEs was collected from various provincial and divisional delegations for Commerce; SMEs and Social Economy; and Industry respectively. The SMEs were divided into sectors: a) trade, b) transport, c) construction/engineering/manufacturing c) restaurants/hotels/bars e) farming and g) services. A stratified random sample approach was used to select SMEs to ensure that each of sectors is fairly represented.

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<sup>3</sup> See DeLancey and DeLancey (2000) for a more detailed history of the region



100 questionnaires each consisting of 18 closed-ended questions was distributed to SMEs throughout the city of Kumba. The questions were set with the primary objective to identify new and innovative SMEs for a later interview. The owners of the SMEs (entrepreneurs) were personally approached for introduction and permission to have them complete the questionnaire. At the end of each questionnaire the respondents were asked if they elect to answer to an interview at a convenient later date.

More than 100 owners of SMEs were approached with a questionnaire. Out of 100 persons who completed the questionnaire, 16 accepted to participate in an interview while the rest declined sighting issues such as: "You must be someone from the department of Taxation; "I am not sure if you are not a spy for the Government"; "I am not the right person for you to interview"; "unfortunately for some reasons I can't involve myself"; "I am sorry to reject your proposal due to lack of time", among others. However, the persons who accepted to contribute to the study were sufficient since all the relevant sectors of the economy were represented. To ensure coverage of all sectors 12 participants were selected for the interview, two from each of trade, construction and engineering, agriculture, leisure, manufacturing and services.

The interview consisted of 24 both semi-structured closed and open-ended questions (Saunders et al, 2003) centred on the research questions and objectives. The owners of the SMEs (entrepreneurs) were personally approached for introduction and actual interviews at the agreed. All twelve interviewees accepted a tape-recording of the interview process. The respondents based their answers to the questionnaires on their academic and/or professional/apprentice experiences. Informal discussions were also conducted with staff of government institutions and private organizations concerned with development, regulation and promotion of SMEs within the Kumba area. Due to the existence of little research in the subject under investigation, the data was analysed using descriptive and exploratory approaches (Yin, 2003). The existing literature and theoretical discussions provide a basis for explaining the relationship between entrepreneurship and economic development via innovation. Therefore, qualitative interpretations of economic and statistical (estimates, range, percentages) measure are used to determine value added SMEs from the innovation process while, spillover effects of innovation are determined through qualitative assessment of employment creation, education and training skills, taking place between SMEs and other organizations and agents of society.

It is important to note that a certain data and primary information in Cameroon are difficult to obtain and a lot more have not been censored. While official statistics were found to be irregular and unreliable, the authorities contacted during the fieldwork refused to have their names or statements quoted directly in the study. Due to these reasons, the paper is largely based on general and publicly available statistics and the researchers own interpretations of statements collected in the field. To ensure that respondents picture the reality of the questions being investigated, the initial stages of this study consisted in collecting and evaluating relevant existing theoretical and empirical literature. Such previous studies were used to prepare a "Researcher's Guide" describing the

research area under investigation, introduce the research objectives and questions to the interviewees, and to facilitate more focusing of their responses.

Furthermore, most surveys on SMEs in Cameroon include activities in the formal and informal sectors. Given that the informal sector operate outside the law, the interview section of this paper focuses on SMEs in the formal sector in order to gain a deeper understanding with which to relate to the theoretical literature. However, it was observed in the field that some SMEs were reluctant to participate for fear of releasing statistical information concerning their businesses that could lead to tax increases. To resolve this problem, efforts were made to gain trust and confidence of the SMEs or passing through "middlemen", that is, people who know the owner of the SMEs very well. Furthermore, in order to identify characteristics and occurrences common in the whole of Kumba, the names and other details of the specific persons and SMEs interviewed have been kept anonymous. It must be noted that during the interview sessions the entrepreneurs were reluctant to discuss certain issues about their business. This is due to cultural values that make it difficult for individuals to talk openly about their success/failures; fear of leaking information to tax authorities and sometimes, to avoid given the impression that they are above their competitors. However, the information gathered was sufficient to perform the empirical analysis for this study.

## **Results and Discussions**

### **Characteristic features of SMEs and indigenous entrepreneurs**

By looking at the type of SME, year and place of establishment, capital structure and number of employees, the process of formation and foundation of SMEs can be determined. The firms or SMEs studied are classified under trade (retail and wholesale), construction/engineering, manufacturing, transport, leisure and services. Examples of SMEs in Kumba include: provision stores, motorcycles and auto spare parts dealers, auto garage repairers, furniture and woodwork manufactures, recyclers, general supplies, sellers of building materials, cleaning companies, bars, off-licenses, restaurants, hotels, business consultants, private schools and collages, palm oil, manufacturers of cosmetic products, information technology, documentation centres, printing press, fashion designers, legal firms, book retailers, internet providers, education and business consultants.

All the enterprises studied were less than ten years old. Apart from one enterprise created in the mid-1980s, all the SMEs studied were established after 1990, with 82 of them created between 2000 and 2006. Discussions with staff at the Kumba Urban Council revealed that the SME-sector is on a permanent increase. While new SMEs are being created all the time, others are being closed, and while some are expanding in size, others are reducing their scale of production. While this is a common dynamics of a free market economy, the existing liberalization policy of the government is seen a major factor explaining the emergence of new enterprises. Since the aim is to identify new enterprises, only those created after 2000 were eligible for consideration during the interview selection process.

Eleven SMEs operated without a license because, they argue, their business operate on a temporal site, lack a reasonable business capital that that can motivate the owner to consider issuing a license or simply that their business does not need a license. This was common with small bars and restaurants believed to operate in the informal sector though seemingly with a permanent site. Most of the SMEs have only a single site business with no branches or partnerships. However, 11 enterprises acknowledged operating more than one branch of the same business in other cities while 5 said they operate a different business in addition to the current one in other cities. The workforce in the SME sector is largely labour-intensive short-term, temporary, apprentices and family labour due to the labour-intensive nature of existing technology. The study also show that the start-up capital for most SMEs is below five millions francs CFA although the enterprise information for most of the SMEs indicated that their business capital increased within a year of operation. With respect to the source of capital, a large majority of the SMEs depend on personal savings interest free loans from family and friends with virtually no support from the government. This is in sharp contrasts with information from the provincial delegation for trade and industry as well as the Kumba urban council, where it is documented that government operates a micro finance and support programmes for innovative SMEs in all parts of country.

**Table 1.**  
Characteristic features of SMEs in Kumba

<b>Size of enterprises by number of employees</b>					
No. of employees	< 10	10-49	50-99	> 99	N/A
No. of Enterprises	63	28	9	0	10
<b>Start-up capital</b>					
Start-up Capital (Millions FCFA)	< 1	1-2.5	2.5-5	5-10	> 10
No. of Enterprises	59	8	21	4	8
<b>Sources of start-up capital</b>					
Source	Personal savings	Family/friends	Private Loans	Government	Others
No. of Enterprises*	74	16	12	0	4

\* Total here is 106 because 6 SMEs got their starting capital from more than one sources.  
Source: Author's processing of data from field studies

From the information obtained from processing the questionnaires an indigenous Cameroonian SME can be defined as one that satisfies the following basic features: *Management control and majority ownership of the enterprise is by an indigenous Cameroonian national; The enterprise is a new business undertaken operating with private capital and without any government funding; The enterprise is owned by someone who satisfies the definition of an indigenous Cameroonian entrepreneur as defined in the next sub-section.* This, it can be concluded that the start-up period of an SME is the most crucial phase in its lifecycle, when entrepreneurs discover how to

operate the new business and how to make it fit the market. This study on Kumba indicates that, within the first five years after foundation a good number of the new firms are closing down.

By looking at the personal data of the entrepreneur or owner of SMEs, a better picture of an indigenous entrepreneur can be gotten. The entrepreneurs come from diverse ethnic origin throughout the country. Apart from one entrepreneur who reported an age above 85 years, all the entrepreneurs fall within the working age group of Cameroon (16-65 years). 34 entrepreneurs are below the lower working class age of 16-35 years while 65 are within the upper Working age group of 36-65 years. In terms of gender, men were seen to dominate ownership of SMEs with 83 men as against 17 women. This is because; women are mostly engaged in very small business activities mainly to obtain additional subsistence income for the household and the fact that traditionally, women play the role of housewives in African societies. This is supported by the fact that 76 of the 100 entrepreneurs studied are married with children, an indication that indigenous entrepreneurship in Kumba is male dominated.

Since this study concerns indigenous entrepreneurs, all those entrepreneurs with foreign nationality were excluded from the study. Among the 100 persons studied, only 20 were born in Kumba, 15 of who belong to an ethnic group (tribe) within the Kumba area. Among the 75 persons whose tribes are not within the Kumba area, 23 are from various tribes around the South West Province, 28 of them come from different tribes in the North West Province, while 24 belong to tribes in other part of Cameroon. Five entrepreneurs, for personal reasons, did not indicate their place of birth. This ethnic and tribal diversity makes it obvious that language difficulty is a major problem for entrepreneurs. However, most of the entrepreneurs acknowledged they are proficient in English and/or French as well as their local languages. Nevertheless, the common language for business is Pidgin English that is understandable by virtually every person in Kumba. This suggests that although language difficulty may exist for non-pidgin speakers, cultural or tribal boundaries do not matter for defining the person of an entrepreneur.

All the entrepreneurs studied had some form of formal education prior to starting a business (see Table 2). For example, up to 28 entrepreneurs completed only elementary school while 19 received other special training - such as apprenticeship or on the job training in the case of most furniture enterprises and auto garage business; professional diplomas in the case of lay private school owners and consulting firms; and driving certificates in the case of transport enterprises. However, most of these persons noted that they received some advice from educated friends and relatives before starting their businesses.

**Table 2.**  
Education and training of entrepreneurs

Qualifications	No. of entrepreneurs
Primary/elementary school certificate	28
Vocational or Secondary/High School ('O' or 'A' Level)	26
University I (BA, BSc, Others)	18
University II (MA/MSc./MBA/PhD)	9
Other Special training	19

Source: Data collection

From the above analysis, one can *define an indigenous Cameroonian entrepreneur as anyone of Cameroonian nationality who owns an indigenous business enterprise irrespective of ethnic origin and educational attainment.* This definition and that of an indigenous SMEs defined earlier guided the selection of 12 entrepreneurs for a follow-up interview.

#### Determinants of entrepreneurship

The first part of the interview consisted of questions concerning the motive for creating a SME and the factors that determine success in entrepreneurial activity. The results from the interviews are reported in Table 3 below.

**Table 3.**  
Determinants of success in Entrepreneurial activity in Kumba

VARIABLE*	INN	GJ	E&E	FE	LS	FS	DB	Lu	AR	SC
Trade	2	5	3	1	1	3	3	3	3	2
Construction and Engineering	1	5	1	5	2	5	3	5	4	3
Agriculture	3	1	3	4	2	4	5	1	1	3
Leisure	2	5	3	5	1	5	3	1	3	1
Manufacturing	2	3	4	4	2	3	4	1	3	3
Service	2	3	3	4	1	4	3	2	2	3
<b>Factor Rank</b>	<b>2</b>	<b>8</b>	<b>6</b>	<b>9</b>	<b>1</b>	<b>10</b>	<b>7</b>	<b>3</b>	<b>5</b>	<b>4</b>

\* Variables measured on a scale of 1 to 5 with 1 being most important and 5 least important.

**Key:** INN - Innovation, GJ - Good Judgment, E&E - Education and Experience, FE - Family Experience, LS - leadership skills, FS - Foresight, DB - Desire to exploit business opportunities, Lu - Luck, AR - Ability to take risks, SC - Self Confidence.

Source: Interview data

The analysis presented on Table 3 above reveals leadership skills of the entrepreneur, innovation and luck respectively, are the most important determinant of successful entrepreneurship in Kumba. From the dialogue with the entrepreneurs, the

term leadership is used broadly to refer to the ability to establish trust and confidence, good customer relationships, charisma, good relationships with workers, respect for other members of society. Members of society like a person with such qualities and therefore people prefer to do business with such a person. This is more evident in the service and leisure (bars, restaurants, hotels) enterprises that provide mostly intangible products to consumers and therefore require much respect for customers and the public. Consistently with theoretical reasoning on African entrepreneurship, the SMEs studied were not involved in any genuine innovations. They continuously imitate, modify and adapt existing technology to suit the local market. This is common for example, in the construction, engineering and manufacturing enterprises which produce local products suited for the domestic market such as, furniture, window protectors, books, kitchen utensils, among others. Luck was identified as an important determinant of successful entrepreneurship due to the complex, corrupt and uncertain business environment in which SMEs operate in Cameroon. For example, small movable businesses (hawkers) in the informal sector are quick to capture the market at short notice than established SMEs, while the bulk of consumers rely on subsistence income to meet their non-farm needs. In the case of innovative products, the respondents explained that it was difficult to predict whether the market will accept a product or service and that in most cases SMEs did not have advertisement or market research finances. Thus whether the product is accepted in the market or not is a matter of chance and luck.

The next set of determinants of successful entrepreneurship is self-confidence, ability to take risk, and education and experience of entrepreneurs. Although most of the entrepreneurs interviewed have at least post primary education and some apprenticeship experience, these do not count among the top three determinants. Even in the engineering and construction sectors where education and experience are considered most important for successful entrepreneurship, the entrepreneurs in this sector explained that their workforce is largely apprentice and labour-intensive short-term, temporary, apprentices and family labour due to the nature of existing technology the workforce. Although, entrepreneurs need diverse skills to successfully run their enterprises, this study found that identifying a business opportunity is more important for the entrepreneur than the ability to take risks. This is because; their current living standards always forces them to engage in some form of business even if they have no desire. This explains why the construction, engineering, and manufacturing that required suitable skills and a high level of education do not attract many entrepreneurs. Although most of the entrepreneurs identify the origin of their business idea to family tradition, they stress that this not count so much on the creation of an enterprise. However, this factor explains why women are largely absent in entrepreneurial activity since family tradition requires women to perform housework that are not related to income generation.

It can be concluded that success in entrepreneurial activity is understood to mean just normal success of an enterprise or the general fact that the SME is still operational even if it is not profitable. In addition, the establishment of SMEs in Kumba seem to be both demand and supply driven. It can be said to be demand-

driven because SMEs result from entrepreneurial identification and response to market opportunities and supply-driven because despite low returns and declining economic activities SMEs are acting out of necessity and in the absence of better alternatives. Furthermore, due to low education and financial resources, only micro-level success is possible to enterprises. Nevertheless as long as necessity will continue to drive indigenous peoples into business and as long as individuals with some amount of resources are willing to incur the risk of establishing a new venture, there will not be scarcity of entrepreneurs in the region. As long as other alternatives continue to be non-existent, employment growth in SMEs will continue to remain highly supply-driven.

Networks (associations) and Linkages (horizontal/vertical) determine the relations between SMEs in terms of input availability or association. All the entrepreneurs interviewed reported that their SME have some form of relationship with at least one other SME. While some belong to sector business associations, others have links with SMEs on the same line of cooperation. Networks (associations) and linkages form an important part of business and social life in Kumba. Several unions and associations exist far from what can be termed professional organizations. They are mostly informal associations of a certain area that depends on monthly contributions by members. Among other functions, these groups serve to protect their members from the authorities, celebrate in times of joy (such as child birth), and condole in times of sorrow (such as death of a member). Due to their informal nature, these groups are badly organized, have scanty constitutions and are not involved in professional activities, except for some individual problems of members. Nevertheless, the entrepreneurs reported that these informal networks and linkages promote collaboration and fair competition among SMEs, improves dialogue with the State and the local councils, and enables exchange of both tangible and intangible inputs among SMEs thereby contributing to the development of entrepreneurial activity in the region.

#### **Entrepreneurship and economic development – innovative or non-innovative SMEs?**

The essential issue investigated in this paper is whether indigenous SMEs in Kumba are innovative and if so the intensity of innovation that determines their contribution to the process of economic development. The findings from this study shows that the creation of new enterprises passes through four successive stages namely, the decisions concerning line of business, starting capital, business location, basic strategy and business location. The indigenous entrepreneur is interested in an area where an enterprise has just shut down or none exists at all. For example, one entrepreneur noted that when a bus station (park) was established at Mbonge Road connecting neighbouring cities of Ekondo Titi and Mundemba, all kinds of small enterprises emerged such as auto garages, welders and metal shops. In this case the entrepreneur make a decision on what type of enterprise to establish, identifies and analysis's risks and benefits involved. These factors cause the entrepreneur to set up an enterprise once an opportunity emerges irrespective

of his/her previous academic and other experiences. This evidence suggests that the Schumpeterian process of innovation does not apply in the city of Kumba. This is because entrepreneurs do not enter the market on the basis of their new ideas, product or process but on the basis of an existing or new opportunity.

Schumpeter (1934) also argued that, the basis of entrepreneurial activity is capital accumulation. As the results from this study indicates, most of the capital of SMEs come from personal savings and financial assistance from family and friends, with very few going to take part of their capital as loans from private institutions. This strong positive correlation between personal savings of entrepreneur and establishment of SME suggests that creative capital accumulation is an important ingredient that determines the extent to which SMEs survive and grow in business. In addition, most of the entrepreneurs reported that family tradition and poverty alleviation are important push factor in new business creations. The apprenticeship tradition also plays an important role in the specific type of SMEs to create. This is obviously consistent with early thinking of Marshall (1890) that formal education and that innovation is an exogenous determinant of economic progress. The entrepreneurs noted that, while education is relevant, apprentice experience accumulated over the years better enables many persons to be able to set up own successful SMEs at a future date. This obviously justifies the argument that new SMEs are created through a process of imitation and adaptation rather than genuine innovation in the Schumpeterian sense.

Although no quantitative measures were carried out to establish the exact contribution of entrepreneurial activity to SMEs, the entrepreneurs believe that income earned from their activities could alleviate poverty within their households and enable them to send their children to school. Success in entrepreneurial activity for entrepreneurs is defined as normal operations of the enterprise, the simple fact that the enterprise is still operating or a general conception that there are bright prospects for survival of their enterprise in the future. This seem to suggest that what exists in Kumba is mostly what Acs (2006) calls necessity entrepreneurship (subsistence and survival) even though some SMEs are able to obtain profits in business. The Kumba analysis also seem to fit traditional descriptions of the entrepreneurs as 'arbitrageur' (Cantillon, 1931) and Says (1930) that the traditional entrepreneur simply produces and sells a product that is demanded by consumers.

The contribution of indigenous SMEs to economic development is shown in this paper to be mostly indirect - such as transfer of apprentice skills, employment creation, education and training skills taking place between SMEs and other organizations and agents of society. For example, all the SMEs visited have at least four employees and most noted that the increase their employment base from time to time to meet consumer demand. When compared with government documentation of large-scale enterprises in the region, the number of persons employed by SMEs is arguably more than double that in registered large-scale enterprises and in the public service in Kumba. Income earned by these employees goes a long way to solve poverty problems. Despite apparent low wages and work conditions, determined in most cases



by the entrepreneurs (and not by state regulations), it is clear that the right conditions in place entrepreneurial activity can be a major source of employment and income for a large section of the population. Another important contribution of SMEs is the provision of basic commodities needed to satisfy increasingly local demand. For example, the main products of welders and metal shops such as metal doors and gates, metal windows and window protectors, simple tools for farmers, bumpers for cars, welding jobs of any other kind all enable poor households to get their needed supplies at cheap prices. In addition, service SMEs such as bars, restaurants, legal and business consultants help to provide a variety of similar services to the population and play an important role in the development process.

This study shows that the majority of the entrepreneurs are aware of their problems, but unable to solve them. Ignorance of the existence of financial institutions, insufficient availability of banking services due for example to lack of collaterals means that most SMEs have to rely on personal savings and loans from family and friends. Poor transport network prevents SMEs from getting raw materials and other supplies on time as well as increases costs of production. In addition, entrepreneurs have insufficient technical experience, low levels of education and lack ideas for designs of products. Furthermore, working tools are of poor quality (mostly locally made) while modern tools are very expensive and difficult to get. Possibilities specifically designed for entrepreneurs to catch up with basic education or to upgrade professionally are not available in the region while local institutions or organizations such as Chamber of Commerce, Cooperative Banks and Microfinance institutions that could support SMEs in growth and development are not well established in Kumba. Other obstacles include an apparent lack of possibilities to increase the size (space) of the workshops especially through existing networks and linkages, lack of knowledge of new technologies, high taxes and limited support from the government. Furthermore, the awareness among the average customer of the SMEs for quality work, which deserves a better remuneration of price, is very low. Moreover, the entrepreneurs themselves are not organized well enough to provide upgrading, specialization and other services for the development of their trades. Despite these problems, this paper supports Baumol (1993b: 197)'s argument that even if entrepreneurs do not represent a major contribution to society, they help promote economic progress. Thus, the government must provide the necessary infrastructure and support to meet these challenges.

### **Conclusions**

This paper provides an insightful qualitative case study analysis of selected SMEs in the city of Kumba, an indigenous segment of Cameroon's entrepreneurial community. Entrepreneurial activity is geared towards poverty alleviation through the establishment of SMEs. Indigenous entrepreneurs contribute to economic development by providing employment and income to the poor. Self determination, the need for economic independence, a highly positivistic vision and intense hope for success pushes them to creatively accumulate personal and family savings to pursue economic opportunity beyond the cultural norms of profitable business ventures. Although the

ultimate aim for going into business is to change individual status by obtaining a higher income, this study shows that monetary profits is not the dominant determinant for successful entrepreneurship. Rather, it is the mere fact that the enterprise continues to operate with bright prospects that explains successful entrepreneurship. In line with theoretical reasoning, leadership skills of the entrepreneur, innovation and luck are identified as the most important determinants of success in entrepreneurial activity. However, Schumpeterian conception of innovation as *new combinations* that chart economic development is not applicable to the city of Kumba. What matters is the identification of a business opportunity and not the ability to take risks since low living standards always forces people to engage in some form of business even if they have no desire. Furthermore, what businesspersons in Kumba meant by innovation are imitation and adaptation of existing technology and not genuine Schumpeterian innovations.

Thus, an important message from this study is innovation is not an important policy issue for Cameroon since many firms exist for subsistence and survival and are far from R&D enterprises. However, due to the impact of SMEs on income growth and employment creation, government and other action groups should design policy aimed at enabling indigenous SMEs to catch up with the western countries. This includes, for example, providing assistance for apprenticeship development, modernizing in a distinctly Cameroonian way, fighting corruption and bad legal practices, integrating the informal sector into the legal framework of the country, provide business capital to SMEs, other measures such formal education, vocational training, experience in the line of business, avoiding environmental damage, gender oppression and class conflict. Donor agencies and NGOs could also assist among other things, in providing training programmes and credit facilities to indigenous entrepreneurs. The focus of this study has been on the city of Kumba and although it portrays characteristics common in most parts of Cameroon, comparative studies in other regions would be a useful addition to the current paper in facilitating policy issues and innovation studies in African context. In addition, non-indigenous (foreign-owned) SMEs especially those owned by Nigerians are based on opportunity entrepreneurship (profitability and growth) seem to control many aspects of business life in Kumba that need to be studied in comparison with indigenous enterprises to improve existing knowledge.

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