

An Analysis of the Presence of an Entrepreneurial Culture in Kenya: An Application of the Population Ecology Theory and the Resource Dependence Theory

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Abstract

Several factors have been put forward to explain economic development and growth in different countries. The main factors are first, economic resources and second, well functioning economic, social and political institutions. Third, a growing number of authors have argued that culture is also a critical ingredient of economic development and growth. One important aspect of this cultural influence on economic development is the entrepreneurial culture. In Kenya, the debate on the presence or absence of the entrepreneurship culture is old and still raging. This study contributes to this debate by examining whether there is an entrepreneurship culture among micro and small enterprises (MSEs) in Kenya. Specifically, the study inquired into the possible causes of the phenomenal rise in new MSEs in Kenya between 1993 and 2005. Could this be, as is popularly believed, a manifestation of an entrepreneurial culture in Kenya? To answer this question a survey of over 170 entrepreneurs was conducted for different types of ventures in Kariobangi, Kasarani Division of Nairobi County in Kenya. Data was collected on the reasons behind business formations, the constraints to growth and the strategies used to market their goods and services using a questionnaire. A factor analysis technique was used to analyse the data. The evidence adduced shows that the mushrooming of MSEs over the sample period is not an epitome of an entrepreneurial culture in Kenya. The key factors behind this phenomenal growth are desire to supplement income, availability of credit, the desire to generate wealth and retrenchment. These are rational defensive responses to unemployment, retrenchment and poverty. Therefore, the observed increase in MSEs was a response to the harsh social, economic, and political environment at that time. Indeed, the results showed that an economic turn around in the country could lead to a massive close down of many MSEs as formal employment increases. Thus, policy-makers need to initiate policies aimed at reducing unemployment and poverty, which drive people to form MSEs to eke out a livelihood.

Key words: Entrepreneurial culture, Economic Growth, Economic Development, MSEs, Institutions, Business Formation, Poverty, Environment, Population Ecology Theory, Resource Dependence Theory.

1. Introduction

There are many factors that influence the emergence of new business organizations. The environment of business is always postulated as one major factor that can be relied upon to determine the reasons for the formation and growth of new enterprises (Peterson, 1980). The personal characteristics of the founder are yet another factor (Gartner, 1985; Wortman, 1987; Aldrich, 1990; Rauch and Frese, 2007). Moreover, greater emphasis has been put on the role of culture in new venture creation and economic development (Smith, 1776; Weber, 1958; Banfield, 1958; Chua, 2004; Clark, 2007; Tabellini, 2003; Landes, 1998; Guiso, Sapienza and Zingales, 2004). This study examined, in general, the role of the environment in explaining the recent growth in small and micro-enterprises (MSEs) in Kenya. More specifically it determined whether the phenomenal growth in MSEs between 1993 and 2005 was a manifestation of an entrepreneurial culture in Kenya or a rational defensive response of individuals to their harsh environment.

In this study the term entrepreneurial culture is used to refer to the acts of forming new businesses with a view to permanently earning a livelihood from the ventures. Such actions are buttressed by values and attitudes such as a sense of competitiveness, a strong and good work ethic, patience, thrift, tenacity, honesty and tolerance. In essence an entrepreneurial culture is a manifestly virtuous way of life. An MSE is defined as an enterprise that employs at most ten employees (Central Bureau of Statistics, 1999). A new MSE is defined as one that has been created or acquired and has a distinct existence in terms of goals, objectives, strategies and resources.

A large proportion of the population in Kenya lives below the poverty line. Indeed political figures indicate that 56 percent of Kenyans live in poverty. The situation on the ground could be worse. In addition to poverty, there has been mounting pressure on the government to downsize and right size the civil service. Ordinarily this means sacking or compulsorily retiring civil servants so that the pressure on the exchequer is reduced. The main proponents of such radical policies are the World Bank and the IMF. The motivation is to achieve economic stability and growth through placing a lid on public debt and deficits, interest rates, inflation and hence avoid economic recession.

The growth of the informal sector has been lauded as a major contributor to GDP in Kenya. The MSE sector contributes 18.4% of GDP and provides employment to over 5 million people (Central Bureau of Statistics, 1999). Therefore, the dynamics of this sector are of great interest to both policy makers and scholars alike. This study, therefore, answered the following question: Is the recent growth in new MSEs an indicator of an entrepreneurial culture in Kenya?

The role of the environment in the founding of new businesses has been noted by a number of scholars (Cross, 1981; Romannelli, 1989; McCarthy, Wolfson, Baker, and Mosakowski, 1988; Stabber, 1989). The two dominant theoretical models in this line of research are the population ecology and the resource based models. These two models are utilized in this study to build the conceptual framework.

The rest of the paper is divided into six sections. Section 1 is the introduction, which provides the background to the study. The theoretical and empirical literatures are discussed in section 2. The conceptual framework is discussed together with the data, sampling technique and the data analysis instruments in section 3. The results of the study are presented in section 4. Section 5 examines the policy implications of the findings. Lastly, the conclusions are delineated in section 6.

2. Theoretical and Empirical Literature

In this section the population ecology theory and the resource dependence theory are discussed and then used to construct the conceptual model for this study. The results of various studies that have applied these models in other contexts are also reviewed.

2.1 The Population Ecology Theory

The central idea in the population ecology model is the concept of a niche (Brittain and Freeman, 1988; Hawley, 1988). Different scholars define a population niche in different ways. Brittain and Freeman (1988) define a niche as a combination of resources that differentiate one population from another. While Hawley (1988) define a niche as a resource space that is determined by the environment. However, the difference between one niche and another is fuzzy because one resource may be utilized by different population ecologies. In this study the (Brittain and Freeman, 1988) definition of population niche is adopted.

Population ecologies can be distinguished from one another by their carrying capacity (Hannan and Freeman, 1988: 21). The concept of carrying capacity is used to describe the number of businesses competing for the same resources in a niche (Hannan and Freeman. 1988: 21). Carrying capacity is therefore related to the rate of new business formations and failures in particular population ecology.

There are several factors that affect population intensity in a niche. The first is the training opportunities available for training organization builders. The second is the social networks that connect people with inclination and skills in founding new businesses (Hannan and Freeman. 1988: 21). These two factors act through the legitimacy process and the competition process. The number of new business formations is directly proportional to the degree of legitimacy of the population and inversely proportional to the competition (Hannan and Freeman. 1988: 21). However, these relationships are nonlinear.

Empirical studies on the application of the population ecology model have uniformly reported an Inverted-U curve relating carrying capacity to the formation rate. This phenomenon has been attributed to the working of the competition and legitimacy processes.

2.2 The Resource Dependence Theory

The resource-dependence theory argues that the dependence on the external environment for resources and information establishes the relationship between the firm and its environment (Boyd, 1990). The environment is viewed as a store of resources required by firms to survive and compete. The level of dependence of the firm on the environment is known as environmental munificence (Castrogiovanni, 1991).

Empirical researches on the relationship between munificence and business formation have focused on several factors. The factors can be broadly categorized as social, economic, and political. The social factors that have been studied are social networks (Marriet, 1980; Gartner, 1985; Aldrich and Zimmer, 1986; Rock, 1988, Manning, Birley, and Norbum, 1989; Nahapiet and Ghosal, 1998; Lee, et al, 2001), support of socio-political elites (Bull and Winter, 1991), cultural acceptance (Gartner, 1985). The relationship of these social factors with carrying capacity is uniformly positive.

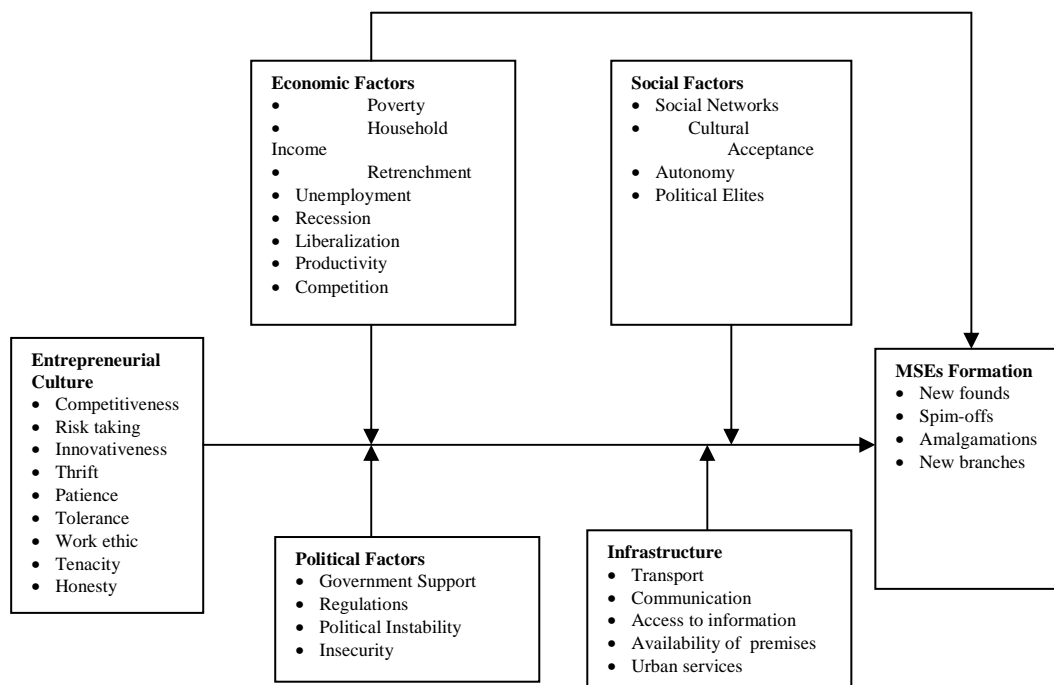
The economic factors that influence carrying capacity are capability availability (Cross, 1981; Pennings, 1982), productivity, household income, industrialization (Walton, 1977), economic recessions (Gould and Keeble, 1984; Mason, 1989; Staber, 1989), and unemployment (Johnson and Cathcart, 1979; Pennings, 1982; Gould and Keeble, 1984; Hamilton, 1989). Apart from the curvilinear relationship between unemployment and carrying capacity, the other relationships are positive

The single political factor that has been extensively studied is the support of the government. Most studies have found a positive relationship between government support and carrying capacity (Leff, 1979; Wilken, 1979; Pennings, 1980; Gartner, 1985; Tucker, Singh, Meinhard, and House, 1988). A few other studies have found no relationship between government support and carrying capacity (Del Monte and Deluzenberg, 1989; Gripaios et al, 1989; Mason, 1989).

Other scholars have examined the relationship between carrying capacity and infrastructure development factors like housing and urban services, health, income distribution, and local control (Walton, 1977), education system and level of education (Bull and Winter, 1991), transportation and distribution system (Langton, 1984; Gartner, 1985), communication systems and media (Langton, 1984), nature of the local labour market (Gould and Keeble, 1984; Gartner, 1985; Mason, 1989), access to information (Romaneli, 1989), accessibility to suppliers and customers (Gartner, 1985), and availability of premises (Gartner, 1985; Gripaois et al, 1989, Mason, 1989). With the exception of the nature of the local market where evidence is mixed, the relationships between infrastructure development and carrying capacity are mostly positive.

However, there is a dearth of research on the relationship between environmental munificence and business formation in Kenya. The theoretical basis of such studies is also weak. This study contributed toward filling this gap by combining the population ecology theory and the resource dependency theory to explain the factors behind the significant increase in new MSEs in Kenya from 1993 to 2005. Specifically, this study answered the question: Was this phenomenon a manifestation of an entrepreneurial culture in Kenya? The literature review above leads to the conceptual framework in Figure 1.

Figure 1. Conceptual Framework



3. Research Design and Methodology

This section discusses the data, the conceptual model, sampling techniques and the data analysis instrument.

3.1 Research Design

This study employed a descriptive research design. This research design enables the relationships between variables of interest to be analyzed. The aim of this study was to explain the determinants of new MSE formation and the role of entrepreneurial culture. Therefore, the descriptive research design was the most appropriate.

A survey design was employed to capture the relevant data. This was implemented using a questionnaire as the main research instrument. Focus group discussions were also used to collect the data in order to corroborate the responses that were received using the questionnaire. This data triangulation ensured the reliability and the validity of the data that was used to answer research objectives in this study.

3.2 The Population of the Study

The population of this study was all the MSEs operating in Kariobangi South Light Industries in Kenya. The total number of MSEs in Kenya according to the National Business Survey (1999) was 1.3 million MSEs providing employment to about 2.3 million Kenyans. Approximately two-thirds of these MSEs are located in the rural areas. The remaining MSEs are found in urban areas where they provide the means of livelihood to many people who are not in formal employment. The MSEs were categorized into four types: trade, manufacturing, construction and services.

The total population in Kariobangi South was about 450 MSEs based on the number of plots in the area. There was no list upon which the population could be reliably estimated. The MSEs are formed each day and the

number could possibly be higher at the time this study was done. Nevertheless, the key characteristics of MSEs that were of interest in this study are fairly invariant. The sample size consisted of 170 MSEs. The study applied simple stratified random sampling technique to choose the MSEs surveyed in this study. All the four categories were equally represented in the sample.

3.2 Data, Sample and Sampling Method

This study utilized data collected from MSEs at Kariobangi in Kasarani Division of Nairobi County. This area is characterized by many business enterprises of different sizes and scales, run by entrepreneurs of diverse backgrounds. Therefore this location provided a rich background against which to examine the influence of different factors on the formation of micro-enterprises and small enterprises (MSEs).

Data was collected on factors that influence the formation of new MSEs. The factors were government support, retrenchment, and unemployment, availability of credit, autonomy, and cost of trained labour, the need to supplement income, market development, infrastructure and the desire to generate wealth. These are shown in Figure 1 the conceptual model. A simple stratified random sample of 170 MSEs was drawn from the manufacturing, services, trade and construction sub-sectors.

A structured questionnaire and focus group interviews were used to elicit the responses from these entrepreneurs. A seven-point Likert scale (from 1 = strongly disagree to 7 = strongly agree) was used to measure the influence of each of the factors identified above on the formation of a new MSE. The influence of the culture variable was measured using a series of questions about attitude and values such as sense of competitiveness, a strong and good work ethic, patience, thrift, tenacity, honesty and tolerance. A factor analysis technique using principal component analysis was then applied to analyze the data. The results are presented and discussed below.

4. Data Analysis and Results

This section presents the findings of this study. The most significant results are that only four factors determine the formation of new MSEs in Kenya. These are: the need to supplement income; availability of credit; the desire to generate wealth and the retrenchment of employees both in the public and private sectors. The three dominant constraints on entrepreneurship are: access to credit; selling of products and poor communication. In order to overcome the above constraints entrepreneurs have employed the following dominant strategies: selling on credit and product/service branding. As expected the drivers, dominant factors and strategies employed by entrepreneurs reflect the economic, social and political environment currently prevailing in Kenya at the time.

4.1 Summary Statistics

The response rate was 78%. This was quite significant compared to the generally low response rate in survey studies. This high rate was achieved by self-administering of the questionnaires. However, 34 respondents declined to participate due to their concern for confidentiality. There were 69% proprietors and 31% other staff among the respondents. According to gender, 72% were male while 28% were female. Most of the respondents (70%) were over 46 years old. There were only 2% of the respondents with primary level of education while 32% had university level education. Therefore, the majority of the respondents are well educated.

There were 57 MSEs engaged in manufacturing, 51 MSEs in trade, 7 MSEs in construction and 9 MSEs in services. Only 25% of the MSEs had 2 – 5 years of experience. Therefore, many of the MSEs were newly formed (75%). Sixty MSEs had more than ten employees while 56 MSEs had between 3 and 5 employees. Thirty MSEs had 6 to 10 employees while the rest had between 1 and 2 employees.

4.2 Factors that Determine the Formation of New MSEs in Kenya

The results of this study show that from a list of ten factors believed to influence entrepreneurial formations only four are important in the MSEs sampled. These factors are the need to supplement income; availability of credit; the desire to generate wealth and retrenchment. Table 4.1 below provides a summary of the factor analysis results using principal components.

Table 4.1 Main Factors Determining MSEs Formation in Kenya - Component Transformation Matrix

Component	1	2	3	4
1	0.869	0.384	0.238	0.203
2	0.110	0.752	0.603	0.244
3	0.027	0.104	0.477	0.872
4	0.182	0.526	0.594	0.372

Rotation method: Vari-max with Kaiser-Normalization

Using the component matrix above the first component identified as the need to supplement income. This factor is positively correlated to components 2, 3 and 4, which are availability of credit, the desire to generate wealth and retrenchment, respectively.

The second component was highly loaded on the desire to be one's own boss and availability of credit. Due to a higher loading on the latter in the rotated matrix compared to the former, this component was interpreted as the availability of credit. Moreover this component is also highly correlated with failure to secure a job than the attraction to higher income or profit.

The third component had a high load on the desire to generate wealth factor compared to the attraction to a higher income or profit and failure to secure as job. Therefore, this was interpreted to be the desire to generate wealth. The fourth component was easy to interpret. It had the highest and conspicuous loading of 0.917 on retrenchment. The next positively correlated factor was only 0.404 on the failure to secure a job factor. Therefore, this component was identified it as retrenchment.

When viewed against the above background the results of this study are not very surprising. Indeed, they corroborate the findings of similar studies elsewhere (Walton, 1977; Gould and Keeble, 1984; Hamilton, 1989). A major contribution of this study therefore lies in using a new theoretical framework derived from the population ecology theory and the resource dependence theory. Further, using this conceptual framework empirical evidence is adduced on the relationship between environmental munificence and business formation. Lastly, it shows that the recent increase in new MSEs is largely a rational response to the harsh economic environment prevailing in Kenya but not due to the entrepreneurial culture among MSEs.

Therefore, the results of this study strongly indicate that the harsh social, economic and political environment and the liberalization of the Kenyan economy have, mainly driven entrepreneurial formations among the MSEs in Kenya during the sample period. The need to make ends meet is very strong among Kenyans in general. This emboldens them to face the harsh economic environment with desperation, determination, and the strong will to generate income. Since there are few jobs available many qualified Kenyans are unemployed. This makes self-employment or entrepreneurship the only open opportunity available. Hence the increase in the formation of MSEs was aimed at helping individuals to eke out a living.

In order to undertake any business venture finance is an important factor and also a major constraint to entrepreneurs. This study found that availability of credit is the second most important factor determining creation of new MSEs in Kenya. This means that if financial constraints can be reduced or eliminated altogether then more business ventures could be established, investment could be increased and the economy will certainly grow. The finance-growth nexus is an old theme in development economics (McKinnon, 1973). Access to credit by MSEs is known to be especially difficult in Kenya. Commercial banks favour large and well-established firms unlike the MSEs. Thus, MSEs face a big constraint not only to establish new ventures but also to expanding and grow their business. Alternative informal sources of finance are important but the amount of credit obtained from such sources is comparatively small.

The impact of retrenchment on the income of individuals and families is significant. Many individuals lost their jobs without any alternative source of income. The “golden” hand-shake given on retrenchment could not sustain them for long. The short training offered before retrenchment to open and run businesses was not ineffective for the career civil servants and corporate employees. Such a training could not change the strongly ingrained mentality that education was meant to guarantee one a job. Many of those affected by retrenchment had families and other dependants. Others had acquired loans secured by their pay slips. The harsh reality of loosing a stable source of income with no possibility of landing another one drove even the faint-hearted into entrepreneurship. Therefore, many of the newly created MSEs are a reaction to loosing or the possibility of loosing a job through retrenchment or otherwise.

In summary, while the factors that drive business formations are universal the specific milieu within which entrepreneurs emerge and thrive differ across place, space and time. This study examined the dominant factors driving new business formations among MSEs in Kenya from 1993 to 2005. The evidence adduced from this study indicates that the harsh economic environment in Kenya has been solely responsible for the observed phenomenal increase in new MSEs. The results suggest that if the majority of the entrepreneurs were offered job they could easily abandon their ventures. Moreover is the failure of MSEs to access credit a further manifestation of this problem of lack of the entrepreneurial culture? Ordinarily, one would expect that if indeed one is an entrepreneur then the power and charm of the particular innovation to be undertaken could convince lenders to loosen the purse strings. Or one would first accumulate enough resources before taking a plunge into the turbulent world of business. That this is indeed not the case seems to confirm our fears that the phenomenal increase in new MSEs during the sample period is not a manifestation of an entrepreneurial culture in Kenya. Also historical evidence from the corporate sector gives stronger evidence that in Kenya finance or credit is not a problem when you have a viable and profitable business. Evidence of share over subscription on the Nairobi Securities Exchange, since it was established confirms this fact.

4.3 Constraints to Entrepreneurship among MSEs

There are three major constraints facing entrepreneurs in Kenya. The first is access to credit. Since the problem of access to credit has already been discussed in section 4.2 the focus is on the remaining factors.

The problem of selling of products or lack demand is a symptom of the underlying poverty among the large part of the Kenyan population and a lack of the entrepreneurship culture. Poverty robs individuals of their purchasing power hence people cannot demand the products and services of entrepreneurs. The inability to sell one's products is a sign of an inherent lack of innovativeness among the MSEs. Many MSEs produce more or less the same products. This makes the market saturated causing demand to decline further and prices to fall

considerably. The market for their products has been essentially local. One is left skeptical about the idea that such products could not find market outside Kenya or in other strategic regions within the country.

The third major constraint on entrepreneurship was poor communication (road and telephone). Considering the development in the mobile telephone sub-sector, this is no longer a serious problem at least in Kenya. The road network in the country is generally poor, however, it does not constraint innovative MSEs that can and have turned it into an opportunity. Since most MSEs sampled ranked poor communication as one of the major constraints to entrepreneurship, it only goes to confirm our fears - the absence of an entrepreneurship culture in Kenya. One or two badly damaged roads in the area studied cannot close business opportunities available elsewhere in Nairobi and the country at large.

In summary, the three main constraints to entrepreneurship among the MSEs in Kenya appear to be: access to credit, selling of products/services and poor communication. However, on deeper analysis of these factors one finds that they are only symptoms of a more fundamental problem – the lack of an entrepreneurial culture in Kenya. Each challenge in the environment represents an opportunity to be exploited by an astute entrepreneur.

4.4 Marketing Strategies of MSEs

MSEs sampled in this study predominantly used two marketing strategies. These strategies are selling on credit and product branding. As a strategy for selling ones products, credit sales are commonly used when there are so many competitors compared to customers in a given market or niche. The motivation is to push products onto customers with the aim of increasing sales volumes. Thus the strategy is used when there is low or deficient demand.

The principal causes of deficient or low demand in Kenya are poverty, unemployment and under employment and poor remuneration. The net result is the low purchasing power of a significant cross-section of the Kenyan population. Therefore, the fact that MSEs used credit sales simply confirms the low purchasing power among Kenyans and the thin market for their products. This is a situation where everyone is trying to sell something to someone else who is unwilling to buy, for reasons that are not difficult to guess. Under a competitive business environment backed by effective demand, branding could have been the predominant strategy employed by MSEs to market their products. In the light of the foregoing discussion it is not a surprise that credit selling foreshadows branding as a marketing strategy.

In summary, we find that credit selling is the main strategy used to sell the products of MSEs in Kenya. Such a strategy reflects the harsh economic environment within which MSEs have mushroomed. It also reinforces our argument that many MSEs were set up as a reaction to retrenchment or a possibility of the same or other potential threats to an employee's income but not a manifestation of the existence of an entrepreneurial culture in Kenya.

5. Policy Implications

The observed increase in MSEs was a response to the harsh social, economic, and political environment at that time. Indeed, the results showed that an economic turn-around in the country could lead to a massive close down of many MSEs as formal employment increases. Thus, policy-makers need to initiate policies aimed at reducing unemployment and poverty, which drive people to form MSEs to eke out a livelihood.

The government needs to promote entrepreneurship education at all levels of leaning to encourage the development and growth of an entrepreneurial culture in Kenya. Entrepreneurship courses should be incorporated in all education and training programs to foster entrepreneurial intentions and behaviour. When such initiatives are undertaken consistently over time then there is a likelihood of the entrepreneurial culture taking root in Kenya.

6. Conclusions

The results obtained in this study indicate that the predominant factor determining new business formations among MSEs in Kenya is the need to supplement income. The greatest constraint to entrepreneurs in Kenya is availability of credit. While the predominant marketing strategy employed by MSEs is credit selling. We have argued here that such behaviour reflects the harsh economic environment within which the MSEs were operating. Furthermore it is contended that if the entrepreneurs were offered good jobs guaranteeing them a good income to assure them comfort many of them will abandon their current ventures. The results of this study bare that fact well. Thus, this study confirms our greatest fear that there is no entrepreneurship culture in Kenya. Indeed, as defined in this study, the entrepreneurship culture is a virtuous way of life and very few can lead it successfully.

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