

# Promoting African Pioneers in Business: What Makes a Context Conducive to Small-Scale Entrepreneurship?

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*This article aims at improving our understanding of the preconditions for success for the millions of unemployed workers in Africa struggling to build their own businesses. Based on some 'classical' entrepreneurship theory, a simple three-step process model of business development makes the starting point for discussing empirical findings from two case studies in Arusha, Tanzania. The case study methodology takes the advantage of the actor approach, viewing the business context from the point of view of an individual entrepreneur. The potential role of mentors is underlined for 'strengthening entrepreneurial attitudes'. A platform of knowledge and access to information is crucial for 'picking business opportunities'. The role of government is limited only to providing support in 'navigating towards success'. It is underlined that policies should aim at promoting true innovators, not only copyists.*

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## Introduction

Liberalisation policies and retrenchment programmes have swept over Africa for more than a decade. Parastatals have been dissolved, trades have been opened to competition, and millions of people have been sacked from government employment. New opportunities are created for business entrepreneurs at home and abroad. Local people, without external economic relations or social safety nets, have been forced into entrepreneurial business simply for livelihood security.

Alternative employment opportunities have faded away, and bonds with the agricultural subsistence system have been dismantled. The newly unemployed people are untypical entrepreneurs in the Schumpeterian sense, that they are often copying rather than being truly innovative

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in their businesses. They are less risk-taking and able to save from consumption for investment and are more conservative, adhering to cultural and social traditions. Yet there are a number of emerging businesswomen and men, with creative ideas, ready to gain experience, willing to work hard, and they are in need of a conducive environment, a promoting government system and supporting institutions at the local as well as at the central levels. These aspiring small-scale African entrepreneurs can become a basis for an economic as well as a social and cultural recovery. They might become the backbone of local as well as national economies by bridging the former gap between the modern sector owned by the government or foreigners, and the stagnant and lagging informal sector. Local entrepreneurs can bring more traditional values into modern business circles, most of which are presently dominated by pure consumerism and Western economic rationality.

There is a lively debate going on, both in academic and political circles, concerning what elements constitute an enabling environment for small-scale African business entrepreneurs. The World Bank has initiated a number of research programmes to assess various growth constraints faced by African enterprises. Two of these include case studies from Tanzania. The first was undertaken in 1989–91 and included forty-eight micro- and small-scale enterprises.<sup>1</sup> The other study was conducted in 1993–95 involving approximately 200 manufacturing firms, as a part of the Regional Programme for Enterprise Development.<sup>2</sup> The latter is based on interviews with the Tanzanian respondents, which identifies five major obstacles to expansion. These include lack of credit, lack of business support services, lack of physical infrastructure, uneven competition from imports and utility prices. In addition, corruption was mentioned as a major problem and a barrier to expansion, coupled with government regulatory constraints and law enforcement and compliance. These studies focused on contextual obstacles to enterprise growth and development, the last of the three stages of the entrepreneurial process described later in this article.

This article attempts to identify some general challenges and problems small-scale individual entrepreneurs face during all the three phases of business development. The research is based on the Schumpeterian understanding of the role of individuals and innovations in economic development. The article defines an entrepreneur as an individual or a group of people, initiating the provision of products or services to a market, representing something new in that given context. The entrepreneurial quality to be an innovator is accepted and distinction is made

between innovative and copying business starters. The article understands an innovation as a means of increasing production or improving technology, thereby fuelling further economic development. Copying has been understood as a means of sharing an established market or a known technology by more producers, leading to increased employment in the best case and shared poverty or involution in the worst case.<sup>3</sup> It is worthwhile to note that the innovative element is more context specific. Proper entrepreneurship in rural Africa does not have to be based on advanced scientific or managerial research. Marris puts this point clearly:

In the African countryside, an innovation may not seem, at the outset, remarkable—a wholesale business, a restaurant at the cross-road, a bus service, a saw mill. But to achieve these, the owner must have seen what others had missed—an unsatisfied demand, a way of raising money, a source of skilled labor, and put them together.<sup>4</sup>

Contextual variables of special importance for the initiation and development of innovative small-scale businesses are at the core of the article. The following section is an overview of some classical entrepreneurship theory, forming the basis for analysing the contextual variables. The next section starts with a methodological discussion and then presents some empirical findings in the form of two micro-business case studies from Arusha, Tanzania. These cases illustrate the present-day African reality: energetic people struggling to survive and hoping for improved living standards. The importance of taking an actor approach is underlined in this study. The study tries to read the reality through the eyes of the individual entrepreneur, particularly the environment, and how it is conducive to innovative business. These are then mapped and discussed. Next, an analysis of environmental elements that are important for entrepreneurial endeavour is presented. This section is structured on the basis of the general theoretical discussion in section two, 'The Process of Small-Scale Business Entrepreneurship'. Findings from the case studies are discussed together with results from other empirical research, mostly from Africa and Asia. The concluding part attempts at highlighting a few essential issues for further debate, particularly in understanding mechanisms for stimulating indigenous business innovators in developing economies.

### **The Process of Small-Scale Business Entrepreneurship**

Small-scale business entrepreneurship is described as a creative process, which has three distinct stages. The first stage deals with the strengthening

of attitudes and commitment to hard work, originality and risk-taking. The next stage deals with the period of picking opportunities, striving to set together the means of production and identifying and opening the markets. The last stage deals with the process of navigating through obstacles. The main objective of this section is to build the theoretical base for the empirical case studies. The process of small-scale business enterprise development is explained through a simple model illustrated as follows:

*Strengthening of attitudes → Picking opportunities → Navigating through obstacles*

This three-step process shows some degree of similarities with Bhavé's process model.<sup>5</sup> Bhavé in his process model too has categorised venture creation into three broad stages: the opportunity stage, the technology set-up and organisation creation stage and the exchange stage. Let us understand these three stages in detail.

### *Strengthening of Attitudes*

A necessary basis and starting point for entrepreneurial endeavour is a set of attitudes and mental strength. Two 'classical' theoretical contributions to understanding the entrepreneurial spirit were made by McClelland and Hagen. The need for achievement has been considered the core of the entrepreneurial spirit.<sup>6</sup> In McClelland's view the need for achievement has been considered as a psychological quality, differing among individuals and cultures, and creating different preconditions for entrepreneurship among individuals, companies and countries. The individual need for achievement or, more precisely, for challenge and success should, again according to McClelland, be a valid contribution to explaining rates of national economic growth in comparative country studies. The basic causal relationship that McClelland set forth as a hypothesis and tried to test empirically is:

*n-achievement → entrepreneurship → economic growth*

McClelland is clear in his own conclusions: 'The study shows that n-achievement fits people for entrepreneurial jobs', and 'achievement-oriented ideology is absolutely essential to economic development'.<sup>7</sup> He is also clear in his advice on political actions to promote entrepreneurship and economic growth through raising an achievement-oriented ideology:

First of all, ... parents must be encouraged to set high standards for their children. Secondly, ... increasing the rights of women, both

legally and socially, so that they can begin to weaken the effect of paternal authoritarianism.<sup>8</sup>

These are policy advices that should bring results in the next generation. McClelland, however, expresses optimism as regards the possibilities of raising the level of n-achievement in a country immediately:

Business and government in underdeveloped countries can immediately promote economic development by fostering achievement-oriented ways of thinking... Training courses ... can provide an individual with the means that will allow him to change his own motivation if he wants to do so.<sup>9</sup>

This clearly formulated and optimistic strategy may explain why McClelland's thesis on n-achievement has been so popular, in spite of severe criticism of his assumptions and empirical testing.<sup>10</sup>

Some studies of the role of aliens in the economies of specific countries may throw additional light on the attitudes and spirit needed for innovative business starters. Mackie relates his studies on Jews in Europe, Levantines in Latin America, Indians in East Africa and Chinese in Southeast Asia when stating that they are 'strongly motivated to succeed in business because they have so often been excluded from many more desirable occupations in the countries they migrated to'.<sup>11</sup> Kilby in his study especially points at cultural unity and group solidarity when explaining the dynamic role of aliens in business in Latin America, Africa and Asia.<sup>12</sup> Glade in his study on the Levantines in Latin America finds that the family and kinship networks and the culture of loyalty and support among foreigners are of crucial importance to their entrepreneurial success.<sup>13</sup> These networks strengthen internal pride and self-esteem.<sup>14</sup> Wu, in his study of entrepreneurs in Southeast Asia, finds that the social mobility of the Chinese aliens is of importance to their business creativity. The social acceptance of breaking out of a status position makes possible a search for profit in a wider range of new and changing areas of business, compared with more socially bound natives.<sup>15</sup> Mackie follows up on Wu's statement, saying that Chinese immigrants and their descendants are not only hardworking and thrifty, but are also 'a hardy, self-reliant and, above all, a risk-taking lot'.<sup>16</sup> It is found that in Southeast Asia, the indigenous people are not strongly motivated to engage themselves in commercial pursuits. This can be explained as a consequence of social stratification, limited mobility and also by a general satisfaction among the indigenous people of Southeast Asia. The indigenous people aspired

for prestige in non-commercial fields within the limits of their initial social status.

Schumpeter and Kilby both consider that the potential entrepreneurs are individuals, motivated by an atavistic will to power, who occur randomly in any ethnically homogenous population.<sup>17</sup> However, researches on cultural and social settings, on individual psychological qualities and studies on alien entrepreneurs reveal that cultural context may also influence entrepreneurial attitudes and activities. Schumpeter also pointed at the problem of communication and trust between the 'energetic' entrepreneur and the 'static-hedonistic mass of people' forming the innovator's cultural environment. The creative-destructive role of the entrepreneur according to Schumpeter often provokes hostile attitudes from traditional power-holders, which may have a negative impact of hindering access to capital. Santarelli and Pesciarelli argue that credit availability is especially crucial to entrepreneurs in settings where social and cultural barriers to change are high, and where 'the energetic type' does not hold 'command powers' over the factors of production in that society. Credits, if they are obtained, make the active business role of the entrepreneur accessible to the right 'energetic' persons, irrespective of their social rank or membership in a certain class. There is also an interesting point in their argument, that access to bank credits potentially gives a social legitimisation of the entrepreneur and his or her activities of 'creative destruction' within that society.<sup>18</sup>

Even though many authors have pointed at weaknesses of psychological theories on entrepreneurship focusing on individual attitudes and upbringing, it seems obvious that the potential entrepreneurs are influenced by cultural qualities in their environments.<sup>19</sup> The two case studies reveal the importance of a general acceptance of private business endeavour in the society, and of the role of individual mentors.

### *Picking Opportunities*

Based on individual strengths and motivational state of attitudes and some social acceptance in the environment, the potential entrepreneur strives to establish an innovative combination of knowledge and information, capital and technology, labour and skills, and markets and demand for change. Leibenstein builds on theoretical contributions towards explaining both the supply side and the demand side of entrepreneurial services, and on his own concept of 'x-inefficiency' when formulating a theory of the entrepreneur as a gap-filler.<sup>20</sup> The starting

point in Leibenstein's theory is the existence of conceivably obtainable knowledge and techniques (inventions) that could be set into production. The 'gap-filling opportunity set' is reduced to those possibilities that might be associated with expected yields of positive net profits. The demand side is determined by the size and structure of this opportunity set. The supply side, on the other hand, is constituted by two aspects, namely, the motivational factors (determined by personality qualities many of which derive ideas from McClelland and Hagen), and market structure and competition in the actual area of space and business. Leibenstein calls the supply side factors 'the interfirm motivational state'.<sup>21</sup> The level of entrepreneurial activity, then, should be dependent on the combination of the 'opportunity set' and the 'interfirm motivational state'. Additional determinants of striving for business start-up, according to Leibenstein, will be the potential access to necessary inputs of capital and skilled labour ('the input gap'), and access to relevant information on technology and markets.<sup>22</sup>

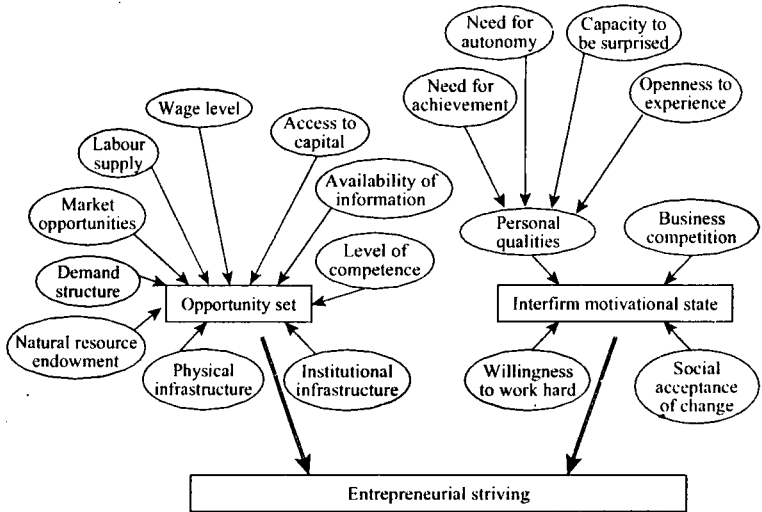
Glade suggests that the 'opportunity set', or 'opportunity structure' consists of the following elements: demand structure and market opportunities, market structure and competition, access to capital and credits, availability of information, skills and technology, local natural resource endowment, physical and institutional infrastructure, human resources, supply of labour and wage level.<sup>23</sup> Glade also makes a distinction between the perception and the objective existence of opportunities and resources. This points again towards the value of taking an actor approach in entrepreneurial studies. Another researcher, Kirzner, underlines the importance of the entrepreneurs' own perception of their business environment. He uses the term 'opportunity recognition', and claims that the most important part of business innovation is the entrepreneurs' alertness to opportunities in their environments.<sup>24</sup> This article, however, contends strongly that individual knowledge and access to information are more important for African entrepreneurship than most other factors of the opportunity set.

The discussion of determinants of entrepreneurial striving has been summed up in Figure 1. 'Interfirm motivational state' contains most of the 'strengthening of attitudes' factors presented above, while the 'opportunity set' corresponds to 'picking opportunities'.

### *Navigating through Obstacles*

After identifying and combining the possibilities within the opportunity structure comes the period when the innovator has to manoeuvre the

**FIGURE 1**  
*Opportunities and Motivation for Entrepreneurial Striving*



new enterprise by clear objectives and sound management through obstacles of bureaucracy and challenges of competition. Drucker in his book *Innovation and Entrepreneurship* focuses on dynamics and how the entrepreneur can facilitate a continuous process of adjustment and exploitation of new opportunities in the society: 'The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.'<sup>25</sup> Traditional managerial outlooks, whatever they are in different contexts, have to be reoriented towards a management style of approaching ever-new challenges, which is proactive and opportunity exploiting. New competitors, improved technology, changing demands, movements in the labour market, all have to be met with a persistent entrepreneurial spirit to move the enterprise in the direction towards success. Reports, however, have a different story to tell. Individual entrepreneurs are often seen bogged down with daily work in production, marketing, administration and in meeting bureaucratic hindrances. This often exhausts their spirit, time and energy for survival and further growth.<sup>26</sup>

Several studies on entrepreneurship in developing countries put emphasis on the bureaucratic hindrances that come in the way of establishment and growth of small businesses. In many countries, business environments are often marked by excessive government control and



regulations. Government control in developing countries takes various forms: licensing, permits for imports and export, foreign exchange regulations, etc. Based on the studies of determinants of entrepreneurial success in India, Sabbarwal notes that 'the plethora of state-imposed conditions an entrepreneur must fulfil even before launching his enterprise, may dampen many a brave spirit'.<sup>27</sup> Sabbarwal observes that it takes a great deal of effort and expenditure to have papers moved through the government channels. The civil servants, instead of acting as partners in entrepreneurial development, often display an attitude of indifference and apathy. Regulatory requirements of the government give the bureaucrat a solid base of power. Similarly, lack of co-ordination between different ministries, departments, and numerous administrative layers of governance prove obstacles to running a small-scale business.<sup>28</sup> Goran Hydén in his study in Tanzania points at the lack of trust between business people and the government. The author points at the underlying need to develop national judicial systems to facilitate efficient and non-corrupt business.<sup>29</sup>

In the present African business context where liberalisation policies have been working for a while, it is our proposition that lack of navigational aid, especially in the form of giving access to information, is a more significant growth constraint to small-scale entrepreneurs than the bureaucratic maze.

### **Business Innovators in Arusha, Tanzania: Two Case Studies**

#### *Methodology*

This section explains the case study methodology used in this research. This is done in order to obtain the advantages of the actor's perspective on both the contexts and dynamics. The researcher in this research has tried to enter the 'life-worlds of those researched', thereby observing and comprehending the entrepreneurial process through the lens of the micro-entrepreneurs.<sup>30</sup> The research process was intended to bring out the actor's impressions on the stimulating and hindering contexts all along the road to business successes. This actor-oriented methodology, in the words of Norman Long, 'entails recognizing the "multiple realities" and diverse social practices of various actors.'<sup>31</sup> The qualitative interview supported by both direct and participant observation is at the centre of the case study methodology used in understanding the process.<sup>32</sup> Individual entrepreneurs are at the core of the cases. The researcher has

tried using lengthy talks and participant observation with the entrepreneur, relatives, employees, customers, friends and representatives from government and non-government institutions in order to get insights into various issues.

Yin, an eminent exponent, has argued that the case study methodology is useful when the boundaries between the phenomenon studied and the context 'are not clearly evident'.<sup>33</sup> Yin argues that case studies allow for empirical inquiry into unclear 'boundaries between the phenomenon studied and the context'.<sup>34</sup> The goal of the methodology is to expand theory, not to prove it. It should be mentioned that case study research exists only in relation to a theory, and that the basic theory of the researcher structures and validates not only the data analysis, but also the subject selection and data collection.<sup>35</sup> The basic theory of this article has been presented earlier, and the research approach is grounded on the theory as well as on the additional case studies conducted.

The two cases presented here have been selected from among ten studies conducted during 1998–99 in the Arusha and Arumeru districts of Arusha region, northern Tanzania. The ten enterprises are newly established small-scale enterprises that received support from NGOs and government institutions working on the promotion of micro-enterprises. The criterion adopted for selection was their high degree of innovativeness. The two cases used are drawn to exemplify the general perception of the business environment among the entrepreneurs from Arusha. The interviews conducted used similar interview guides. Other information was gathered depending on the requirements specific to the cases. Case study protocols following Yin's guidelines were used throughout the research.<sup>36</sup>

### *Pleasure and Business in Fish*

Ladislaus as an entrepreneur built his first aquarium at the age of 16. This making of an aquarium was then for his own pleasure. It was his interest in observing living fish that drove him towards this technical creativity. Business, for him, came much later.

Ladislaus was born in Shinyanga in 1972. He is the third child among five other siblings. His family hailed from Mwanza where his father once worked as a manager in an agricultural co-operative unit. The family moved out of Mwanza and again returned to their *shamba* in Mwanza for some time, before Ladislaus's father finally moved to Arusha to work in Tanzania Breweries. This happened around 1979, and

Ladislaus got his full primary and two years of secondary education at Arusha. Ladislaus was intellectually strong, but his father wanted him to obtain higher education in a technical field. He had noticed that Ladislaus had interests and skills in mechanics. The family also faced some financial problem. Providing education to six children through long years of schooling had proved expensive for the family. After Ladislaus completed his two years in secondary school, he went for a three-year course in vocational training at a centre located between Arusha and Moshi. This centre was government managed and hence had a low fee structure. It was known in the area for the quality of education it imparted. The first two years at this vocational institute offered training in general mechanical engineering. The last year provided specialisation in machinery and tool repair. The schooling, the vocational training and the neighbourhood provided Ladislaus exposure to the world. He was fluent in English. All this helped him to demonstrate self-confidence in meeting his customers and government officials.

After completing his vocational training, Ladislaus was engaged with various mechanical workshops for about four years. This provided him with pre-entrepreneurial working experience. In Tanga he worked at a government sisal company. He worked there as a mechanic, repairing tractors, machinery and equipment used in harvesting and processing of sisal. After working at Tanga for a few years he was transferred to another branch of the same company at Moshi. There he worked as an assistant instructor in the workshop. He was finally transferred to Carmatec, a parastatal organisation under the Ministry of Industry and Trade, set up for the development and design of new technology for practical application in rural settings. This organisation designed biogas plants, water storage systems, equipment for pressing oil from sunflower seed, etc. The exposure at Carmelac was not long. Ladislaus resigned from his job in 1994 when this company started facing financial problems. The long years working with the government did not have an adverse effect on him. His creative nature and desire to try out something on his own made him launch his business.

Ladislaus, as we know, had developed from his childhood days a keen interest in fish and aquariums. He would catch fish from rivers and lakes and keep them in bowls. He had mastered the technique of catching fish, and keeping them in aquariums. He experimented with water rotation, temperature and feeding to keep the fish alive. It was only during a visit to a friend's home at Moshi some ten years before that he had seen an

imported aquarium. Soon after this visit he purchased some sheets of glass and set them together to make his own aquarium. At that time he had no sophisticated pumping or filtering system in his self made aquarium.

After he quit his job, Ladislaus got an opportunity to be in Nairobi—the business capital of East Africa. He chanced to meet a pet-shop owner from whom he obtained information on various kinds of equipment, design and ideas on aquariums. He was also exposed to various pumping and filtering systems and species of fish. With quality craft, artistic design, permanently clean and fresh water, jazzy fish, healthy nutrients, the whole package of decoration and peaceful entertainment was realised by him as a new area where he wanted to establish himself. All this ultimately provided him with inputs towards a new entrepreneurial leap. He once remarked, ‘Nairobi changed my life.’

The market was still to be explored by him. The first order came from a well-off friend of his father. He had seen Ladislaus’s built aquarium and ordered for one. It was after that, that several requests came from within the family’s circle of acquaintances. The New Arusa Hotel ordered for a fully equipped aquarium, built in frames of carved wood. This was displayed in the snackbar of the hotel. His design and wooden handicraft attracted attention and interest among many prospective buyers.

Ladislaus sold fifteen aquariums in three years. These aquariums ranged from 50,000 to 90,000 Tanzanian shillings (Tsh). Selling one at 70,000, he was left with a margin of 25,000 only. This production of five per year fetched him what he should have earned in a month. The sales of aquariums would not pick up. His marketing was unorganised and hence could not provide him with constant orders. He saw the need for a more professional approach to promotion but lacked both skill and resources.

Ladislaus understood his limitation and sought assistance from various sources for developing his business. The assistance he required included access to information, inputs in developing a marketing strategy and a loan for expanding his business. His information needs included the sources which he could tap to obtain the necessary raw materials for his aquarium production unit—the decorative elements and the small gadgets that he could use for various operations. He wanted inputs whereby he could develop a viable marketing strategy in order to boost his business, and finally he wanted a loan of 400,000 Tsh for establishing a workshop. He had approached various agencies involved in the promotion of small businesses in Tanzania. These included agencies like

PRIDE, FAIDA, SEDA, SIDO and YUEG that represented both the government and the NGOs. To his misfortune, none of them could offer him the assistance he needed.

These start-up problems in establishing his aquarium business made Ladislaus seek an alternative whereby he could gainfully apply his own skills and interests. He entered into a partnership with a Goan Indian, and both engaged in developing a flower business. This unit engaged in manufacturing water gardens having waterfalls, fish and waterlilies. This line of business attracted Indians, Arabs and others—particularly all those who had money in Arusha. A typical water garden would cost 300,000 Tsh. The margin was substantial and there was scope to earn more through regular maintenance contracts. Together with the aquarium production and retail sales of equipment and fish nutrients, the additional line of business provided Ladislaus a reasonably safe and regular income.

What, then, is Ladislaus's perception about the environment? How does he see the context wherein he operated—particularly in terms of acceptance of boldness and creativity, opportunities for business development, openings for linkage, synergy, backing of productive initiatives, etc.? Ladislaus opines that the context that prompted him to undertake an entrepreneurial vocation was the gloomy atmosphere where scopes for alternative employment opportunities were slowly fading away. His former employers were cutting back on their workforce—a typical phenomenon observed all across Tanzania in the early 1990s. For Ladislaus, this downward trend of the economy and the accompanying feeling of disenchantment, brought out the creativity in him. He observes that for some the transition had been a boon. The economic change demonstrated increasing demand for luxury goods. The market for living fish and garden waterfalls grew as quite a large number of alien businessmen had garden-enclosed mansions. Ladislaus experienced the total absence of government system in his entrepreneurial endeavour. He could not obtain government assistance in establishing his business nor could he take advantage of the associated government network. The state for him was neither a hindrance nor a stimulus to his growth. He was allowed to operate his business informally without any statutory requirement of licence or company tax. He is, however, disappointed as the non-government sector remained a silent spectator. Ladislaus feels that he had stayed with the business only because of the encouragement and backing he received from his extended circle of friends and family members.

*Head above Water: Saving Energy and Cash*

Mr Kweka went into private business after being dismissed from his job. This happened while he was a technical teacher at a Catholic mission school. The mission school, unable to bear the burden of increased expenses, asked him to resign from the job in 1990. He was then in his late fifties.

Mr Kweka has a technical qualification. He had his basic training at Moshi Technical School. He had obtained vast experience working with various industries in Moshi and Arusha. He worked as an engineer and supervisor with Tanganyika Extract Company for sixteen years. This gave him the platform to broaden his technical skills and also helped him in developing an extended network.

Mr Kweka had been with the missionaries for eight years before quitting his job. This technical school produced items for the local market and also catered to the requirements of other missions' projects. Mr Kweka had been exposed to European ideas and ways of working at this mission school. These included solving technical problems, proactive management and general thinking. This was possible, as the mission was headed by an Austrian. At the mission he also had a high degree of freedom. Mr Kweka exploited this to his fullest advantage. He had several opportunities to demonstrate his creativity and all these aspects helped him to initiate his own entrepreneurial career.

During the first year of his unemployed life, Mr Kweka looked around and developed his ideas about business. He was fertile with many ideas. His children were in school and he required resources to take care of them. All this made him strong. He had to do something to make ends meet. He looked around for markets of various mechanical goods and also searched for a place to set up his unit. He started his business in a modest way. He used the backyard of his rented house as his workshop where he started manufacturing simple hand tools, vehicle bars, loading gear for small trucks, simple pushcarts, etc. These mechanical items were made of steel and were welded together. All these products were manufactured to cater to individual orders. This was not, however, what he wanted to do—his speciality was manufacturing energy-saving devices.

The interest in getting into the energy saving business came from his own family's experience. The increasing cost of cooking fuel and the difficulty experienced in procuring charcoal prompted Mr Kweka to develop technology whereby stoves could be torched using organic

waste. This household stove has since become his core product. The product had a good market and also gave him a moderate margin. Costing 15,000 Tsh and three days of labour, each of these stoves sold at 20,000 Tsh. However, this product was not free from associated problems. It was sold only among people who belonged to the lower and middle economic strata. The product attracted people who wanted to save on fuel cost. Yet, the poor could hardly afford it. Those having free access to fuel were again not interested. These stoves had a life span of four to five years and could save enough fuel, thereby saving on cost as well. It was an attractive proposition for a moderate-sized household since the cost of fuel, particularly charcoal, has shown an increase in recent times. An average family requires charcoal, worth 3,500 Tsh a week for cooking purposes. In order to attract larger institutions like schools and hospitals, Mr Kweka recently ventured into manufacturing bigger models of the same product. This has given him higher margins of profit.

Mr Kweka has recently included another innovation in his product line—a roof-top solar water heating system. This product is tailor-made to suit customers' specification and requirements. The entire package costing 300,000 Tsh includes a black painted solar panel pipe grid—the core technology, pipe system, a water tank and an extended pipeline to one or more water taps. Except the panel, the rest of the product is regular tinsmithy and plumber craft. The package is higher on the expense side and hence attracts institutions more than individuals. Mr Kweka's network with the mission has provided him valuable support in marketing this product. He sells on an average ten to twenty solar heating systems every year.

The fourth item in his product line is the solar cooker. This is currently in the phase of refinement. This solar cooker consists of a system of mirrors and black metal concentrates. The system is used in heating as well as boiling food items. The sale of this product is limited at present to a few supportive institutions only.

Mr Kweka's workshop employs six workers. These include two of his own sons. He pays his employees a monthly salary ranging between 25,000 and 40,000 Tsh. Initially these employees work as interns. They do not receive payment during their intern period. Once they learn the work and start manufacturing the items, they begin receiving their salaries. Many of the local youths have shown a keen interest in working under his guidance. A stint at Mr Kweka's workshop has helped many find secure jobs with other workshops in the area.

Mr Kweka has employed quite a number of strategies to sell his products. He has tried the channel of going through shops and wholesale traders in Arusha. Since the profit margin is low he cannot go through other costly intermediaries. Mr Kweka realises that as long as his sales are concentrated in Arusha, he can work as his own agent and use his workshop as an emporium. He has not tried to advertise his product. He relies upon going through his own networks and neighbours for marketing. His remark—'I have to rely on myself; marketing partners only take away my profit'—seems more plausible. He understands, however, that hiring a professional agency to market his products will become necessary once he spreads himself to markets outside Arusha. In this direction, he has recently established contact with a Dutch donor organisation, FAIDA, for seeking assistance in general marketing—particularly in getting strategic inputs for advertising his entire product line.

Mr Kweka knows that increase in sales will generate subsequent demands in many other areas. He would require more space, fresh investment in plant, machinery and raw materials. Until now his business has not imposed any of these demands on him. He has managed without borrowing from the market. He understands that lack of credit has been a setback for his business—both on the technical and marketing fronts. He understands that more advanced machinery would have increased his productivity. However, he is sceptical of borrowing credit at an ongoing rate of 30 per cent. He understands that the cost he would incur towards servicing this credit will put an enormous burden on him which cannot be offset through increased production, at least in the short run.

Mr Kweka is honest in paying income tax to the government. His annual tax amounts to approximately a quarter of his annual income. He also pays other necessary licence fees. Mr Kweka, however, has not received any kind of support, not even encouragement from the government. Conversely, he has not encountered any hindrance either.

Mr Kweka started his business when he lost his job. He had no land of his own which could have taken care of his food requirements. He had skills that he used to eke out a decent living. Equipped with skills, experience, business relations and motivation, he had ventured into the world of business. His focus on energy saving techniques and the context wherein he operated worked to his advantage. He exploited his relations with the donors and the institutional market. All these helped him tide over the challenge. Now the major challenge is expanding his business. He wants to pitch at the national market level. He does possess some



necessary skills to take on this challenge. The rest he needs to learn in order to give shape to his dream.

### **Conducive Environment for Small-Scale Business Innovators**

Both the cases presented in the preceding section drive home some very important lessons. The analysis follows the basic theoretical propositions from the second section, distinguishing between three main steps in the business entrepreneurship process. The presentations help us build on the innovators' own perceptions of their contexts, combined with other empirical findings. This helps us to improve our understanding of contextual elements that are of importance to business success. Let us examine each of them separately.

#### *Allowing for Individual Creativity and Skills Development: Strengthening of Attitudes*

Ladislaus and Mr Kweka developed their attitudes and commitment to innovative action and hard work over different time spans. Ladislaus, still young at the age of 28, was experimenting with aquarium fish as his hobby. Business came after he realised that government employment was uncertain. More than the need for achievement, the excitement of experimenting inspired him early, and this got strengthened through his government positions. He had built up on his practical skills and had the necessary openness to experience business. He obtained moral support from his family and friends during the early days of his business. Mr Kweka on the other hand had spent years in mounting his skills and networks. He started his business at a rather late age. His need for setting up a business came with the necessity of creating a new livelihood and securing education for his children. He would probably have been with the missionary school serving there as a technical teacher if the economy of the missionaries had remained unchanged. The main stimulating element in the case of both the entrepreneurs was the lack of alternative employment.

One does realise that the situation as seen in the two cases may not apply to others. For other potential entrepreneurs, a strengthening of attitudes and motivation may be necessary. Some researchers and policy makers are concerned with the possibilities of actively stimulating the entrepreneurial process through education, thereby affecting people's attitudes and perspectives. Several entrepreneurship development

programmes have been set up in developing countries, many of them with support from foreign development agencies. These agencies have based their approaches on McClelland's strategies aiming at developing the need for achievement. Poojary in his study made an assessment of entrepreneurship development programmes (EDPs) in India. This study gauged the possibility of imparting entrepreneurial attitudes to individuals through planned intervention.<sup>37</sup> A low business start-up rate was found in the sample of participants and potential entrepreneurs in EDPs conducted in India. The study drove home some broad conclusions. One, EDPs per se have had only a marginal impact on the process of creating entrepreneurs; and two, 'it is doubtful whether the EDPs impart the right kind of skills to those who, according to the criteria of the EDP, are qualified to be entrepreneurs.'<sup>38</sup>

Other scholars have also expressed similar scepticism on the impact EDPs can have on probable entrepreneurs.<sup>39</sup> One study carried out in a Western country has argued that the curriculum for entrepreneurship education needs larger inputs of knowledge and practical skills, instead of being preoccupied with behaviour modification, strengthening of need for achievement and other changes of attitudes.<sup>40</sup>

Dana, based on his study of six island economies in the Caribbean, is of the opinion that 'the most critical element in entrepreneurship development is the value the society attaches to business.'<sup>41</sup> This value according to him reflects the general acceptance of striving for individual progress and prosperity in the social environment. He is of the view that a strategy of minimal government intervention might yield better results than a highly interventionist approach. The starting point for Murphy and others, in their article on allocation of talents, is the assumption that there will be competition to attract the country's most talented people, where entrepreneurship and rent seeking are two of the alternative activities where these people will find their earnings.<sup>42</sup> Entrepreneurship should ideally reward more than rent seeking to build the motivational state for entrepreneurial endeavour.

Elkan in his study points out that in Tanzania the government, through nationalisation, state ownership and price controls, has deliberately discouraged the emergence of private entrepreneurship. The process has led to discouragement of creativity within government parastatals. Elkan is, however, optimistic as regards the dynamic role of small enterprises in Africa: 'Small businesses are the most promising vehicle of entrepreneurial dynamism in Africa.'<sup>43</sup> To release this dynamism, he says, it is necessary to create 'a liberal economic

environment which minimises restrictions rather than specific policy measures and incentives'.<sup>44</sup>

Minimising restrictions does not seem to be enough in both the Tanzanian cases. One does see a definite role for the government, particularly in the area of promotion. Cleverly counselled networks at local levels could strengthen the pride and self-esteem of these small business starters. The role of mentors could also be important if set into strategic operation. Gnyawaii and Fogel, with a focus on emerging economies in Eastern Europe, find that 'the presence of experienced entrepreneurs and successful entrepreneurial role models in a community or country conveys a message to the potential entrepreneurs that business is an attractive career option.'<sup>45</sup> Another scholar concludes on the basis of one hundred case studies in Lesotho that 'the absence of mentors often decreases the rate of creating new businesses and increases the rate of business failures.'<sup>46</sup> These findings also support the views of other scholars like Hirsch and Bush and Fann.<sup>47</sup> The main objective of the programme in Lesotho, as indicated in the study by Masten, was to create awareness among potential entrepreneurs, especially on the desirability, possibility, and feasibility of business start-ups.<sup>48</sup>

#### *Access to Information, Skills, Capital and Markets: Picking Opportunities*

Mr Kweka is through with the process of establishing his business. His employees carry out the production. He is using some of his own time and energy navigating the obstacles in his business. He has faced most of the typical start-up problems. These include market entrance, adopting new technologies based on present skills and competence, finding qualified and motivated workers and developing professionalism in fields like accounting and marketing. The problem of access to credit continues to remain unresolved. Ladislaus on the other hand is tirelessly struggling to keep his business going. The market for his product is growing, but he requires skills in marketing. His capital regeneration is totally dependent on his savings. Business networks are under construction. He needs to improve access to new information and ideas. Recruiting personnel for production and for other purposes remains out of question for Ladislaus.

In Tanzania, growing markets have generally been found to be the reason for growth in small-scale business during the last decade.<sup>49</sup> A Swedish study of eighty small enterprises in Tanzania found that

77 per cent of them had experienced some or substantial increase in the demand for their products over the last few years.<sup>50</sup> Several reports show that market expansion is an impact of the liberalisation process in Africa since the late 1980s.<sup>51</sup> However, the markets for capital goods and consumer durables remain dominated by import and sometimes by non-indigenous national producers. Many of the Tanzanian companies today are run by interests from South Africa. Great potentials exist for growth. This is possible through stimulating local entrepreneurs to aggressively penetrate into both well-established and emerging markets. Arndt, in an article on entrepreneurship and market failure, finds it useful to begin by distinguishing between 'allocative' and 'creative' functions of markets. 'Markets in their allocative function are instruments for economic efficiency and in their creative function are instruments for economic growth.'<sup>52</sup> The prime mover according to him in any market mechanism is competition. He finds that developing countries often lack the necessary competition and market function that provide the creative stimulus to entrepreneurship. Building on Arrow, he says that if market failure happens, then transaction becomes a costly affair. In dual economies, one finds that the transaction costs between modern and traditional sectors are high.<sup>53</sup> With reference to Myint,<sup>54</sup> he points at the reason for this economic dualism. According to him there is an organisational disconnection between the two sectors. In his words: 'The connecting pipelines are clogged up.'<sup>55</sup>

Arndt, while emphasising the creative function of the market, agrees with the ideas and lines of thinking of Kirzner's theory of entrepreneurship.<sup>56</sup> Kirzner had interpreted any entrepreneurial activity as a creative act of discovery within the market. Market acts as a stimulus to learning.<sup>57</sup> In order to obtain this creative learning, small-scale, indigenous entrepreneurs must have on the one hand access to the stimulus of the markets and on the other less of the 'organisational disconnection'. It is necessary that these clogged-up pipelines are opened.

In order to improve the market in its creative function and to stimulate entrepreneurship, Arndt has argued the need for government action and state intervention. There is a need to correct market failure and balance uneven competition between the technologically superior and the lagging sectors of the economy. Government authorities should have the responsibility of opening and maintaining business connections between the two sectors. The government, by inducing private investment and innovation, can stimulate competition and build linkages between different business lines within the lagging sector.

Ali observes that for small-scale individual entrepreneurs networking can be a major strategy for creating gateways to market entry. Networking, according to him, is 'the process of sharing contacts and obtaining resources'.<sup>58</sup> The individual entrepreneur's success to a large extent is contingent on his or her ability to identify opportunities and to obtain scarce resources through such networks. Network relationships are diffused, long-term, constructed of affective and moral ties, and are also underwritten by trust.<sup>59</sup> Authors like Ramachandran and Ramnaryan, based on their empirical research in India, found that the 'pioneering-innovative type of entrepreneurs' tend to demonstrate higher networking tendencies by going beyond the circle of the immediate family and friends to the community and industry in a wider context. This willingness to go beyond the extended family for business cooperation has to do with building trust between individuals. Sustainable networking beyond family relations can happen under conditions of established institutional arrangements, codes of conduct backed by legislative/legal provisions and a generalised high standard of morality in the society.<sup>60</sup>

Tanzania is yet to have a developed market. It lacks the institutions created to secure certainty in market relations. One study finds that contracts between business people in Tanzania are mostly unwritten. Legislature too is seen as without much enforcement power. Lack of efficient judicial infrastructure makes entrepreneurs restrict extending support beyond personal trust. Networks are often limited to the immediate family. This is a serious hindrance to most entrepreneurs, particularly in accessing information and in accessing capital and markets.<sup>61</sup>

As an input, access to capital and credit for starting small-scale businesses needs an elaborate discussion. One does note the presence of reports and publications having relevance to the present situation in Africa.<sup>62</sup> It is worth mentioning at this juncture that none of the non-government organisations involved in supporting small-scale businesses in Arusha could supply Ladislaus and Mr Kweka the capital needed for developing their businesses. It can be concluded that one needs to develop more venture capital funds in Tanzania to have a widespread impact upon this unmet need.

### *Navigational Aids, not Bureaucratic Maze, towards Success*

Neither Mr Kweka nor Ladislaus faced severe hindrances from the bureaucratic structures. Mr Kweka, having been through the start-up

phase of his entrepreneurial activity, is quite hopeful about navigating towards success. He operates in the formal sector of the economy and has been bearing the burden of paying licence fees and income tax. He has not faced many restrictions and hindrances, nor has he obtained support or navigational aid from the government. Ladislaus, on the other hand, continues to operate in the informal sector. His business would easily die if he was asked to pay high rates of taxes and licence fees. He is satisfied with the indifference of the government institutions towards his business, leaving him free of the burdens of regulation and tax regimes. He does not have an urgent need for business assistance. He is on the lookout for aid from non-government organisations.

In Tanzania, scholars have documented that laws and regulations have been highly restrictive of small-scale businesses and private entrepreneurs.<sup>63</sup> Government institutions and parastatals were given the power and the priority in distribution of credits and all kinds of licences. This practice was rampant till the late 1980s. Private business innovators experience very infrequent instances of fair treatment and patronage from these government agencies. Initiative and potential business success thus get eroded. Marris in his study on barriers to African entrepreneurship concluded that 'there is a great deal of entrepreneurial talent only waiting to be released from the constraints of social isolation'.<sup>64</sup>

In Tanzania, since the process of liberalisation, small and private entrepreneurs have come out of isolation and are today given substantial business opportunities. However, in spite of the opportunities that are being provided, many entrepreneurs still consider government regulations and bureaucratic maze a severe hindrance to their progress. Laws and regulations, they feel, can be problematic to business starters when they are combined with a lack of transparency. The corrupt Tanzanian system often expects rent seeking. In one study on small-scale garment and furniture entrepreneurs in Tanga region, Tanzania, the entrepreneurs accused government rules, regulations and procedures of being a hindrance to their business progress.<sup>65</sup> 'Taxes are very prohibitive', is what every entrepreneur says. The small businesswomen and men have realised that they easily lose out to wealthier and better-connected indigenous and Asian business entrepreneurs in the corruption game. Corruption prevents many from securing premises for setting up plants. Negotiating with agencies for many of these opportunities takes up energy and drains the already scarce resource base of the small business innovator.

## Conclusion and Policy Recommendations

The role government is expected to play in the wake of liberalisation and privatisation particularly for the promotion of small-scale businesses in Africa is a debatable issue. Not many agree with the idea that the invisible hand of the market can bring in the best solution. This is particularly true when many of these lagging businesses and entrepreneurs do not possess enough competitive strength to compete in a global market. Some agree that both government and non-government organisations have a role to play in supporting entrepreneurs and innovators in business. Liberalisation policies and structural adjustment reform programmes in Africa have led to higher production of traditional products and have established a large number of new businesses in both the formal and informal sectors. In the adjustment process, however, emphasis has been on competition and on 'getting prices right, rather than getting the right products'.<sup>66</sup> A rationally profitable decision for a single producer may end up being a costly failure for the local or national economy when simple products or services are overproduced and under-priced. Ndegwa points out the deteriorating terms of trade in the international market for traditional African products. This points to the need for encouraging the more innovative entrepreneurs. The copying type, small-scale businesses are important from the self-employment perspective only. One does notice the flocking of donors and NGOs to assisting these enterprises with micro finance based on group responsibility. This study concludes that support needs to be provided to the indigenous and local Schumpeterian entrepreneurs in the African context.

The article, through both theoretical discussion and empirical evidence, suggests breaking away from traditional lines of thinking, behaviour and doing business, requiring both motivation and energy. Setting up innovative business ventures not only requires capital but also information and skills. Breaking away from 'path dependence'<sup>67</sup> also requires a transparent, clean and well-organised bureaucratic and judicial system. Traditional trustworthiness based on 'the economy of affection'<sup>68</sup> needs to be substituted by formalised systems of trust at a level above blood, kin or local community.<sup>69</sup> The scale and range of small entrepreneurs' work must be widened to form the basis for productivity growth. Financial options and marketing skills must be developed, while individual business risk must be reduced to obtain these goals. Creating formalised systems of trust based on law is definitely the responsibility of the national government. Other aspects of business promotion,

however, may fall more naturally under government and non-government institutions at central as well as lower regional levels.

Our case studies in Arusha have shown that there is no lack of motivation for hard work and originality in the local business environment. The society has exhibited a general acceptance of such individual entrepreneurial endeavour. However, both entrepreneurs presented in the study would have gained if they had mentors with them. These 'mentors' would have given practical solutions, new ideas and mental encouragement.

The cases have demonstrated that entrepreneurs need improved access to information on markets, technology, design, and input materials. They would have gained from enhanced skills in business operations, particularly in marketing. The entrepreneurs expressed the need for capital, particularly for basic investment purposes. Both believed that capital for increasing productivity could be better substituted by labour.

In both cases, it is seen that the government does not pose any severe hindrance to the development of business in Tanzania. The author and the studied entrepreneurs have together reiterated that the government could definitely play a more proactive role in facilitating growth of businesses. There is also a consensus on the need for information supply and promotion of business skills among entrepreneurs.

### Notes

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