

Findings

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Entrepreneurship and Firm Performance in Sub-Saharan Africa

The development of the private sector in Sub-Saharan Africa is of crucial importance to the overall rate of economic growth of the region. Entrepreneurial firms have a prominent role in the private sector in many countries in the region. This analysis measures the impact of various entrepreneurial characteristics on the rate of firm growth. The analysis uses data from the Regional Program on Enterprise Development (RPED) at the World Bank. Approximately 200 firms in Kenya, Zimbabwe, Zambia, and Tanzania were surveyed in each country in the food processing, textile, furniture, and metalworking sectors; only the subset of firms owned by entrepreneurs is used in this study.

Theory and Hypotheses

The literature on entrepreneurship poses several hypotheses regarding firm performance.

This analysis includes various "learning mechanisms" that affect firm performance. Following other RPED firm growth studies, it includes firm age and firm size as independent variables in the econometric model. The learning mechanisms that it controls for include previous experience of the entrepreneur, whether the entrepreneur has a secondary education, whether the entrepreneur has a university degree, and whether the entrepreneur has had technical training. It also includes two variables that are somewhat indirect learning mechanisms--whether the entrepreneur's family is in the same business and whether the entrepreneur owns another business concurrently.

The literature also argues that minority ethnic firms have special advantages through the creation of networks in the private sector. External environmental parameters such as limited occupational choice, the threat of expulsion, and enforceable cooperation mechanisms help to create and sustain these networks. Entrepreneurial networks provide access to scarce

information, risk-spreading arrangements, favorable terms of credit, and a tightly-knit group of individuals to whom managerial responsibility can be delegated (Peter Kilby, "The Role of Alien Entrepreneurs in Economic Development," *American Economic Review Papers and Proceedings*, Vol. 73, pp. 107-111, May 1983). In general, the literature on minority entrepreneurship concludes that contractual mechanisms generated within ethnic groups are crucial to providing access to inputs, credit, technology, and finance. This in turn leads to greater profitability and growth of firms within the network. Thus, this analysis hypothesizes that the firms owned by entrepreneurs of Asian and European descent grow at a higher rate than other firms in the sample.

Results

Average annual growth rate of employment of entrepreneurial firms varies between 6.8 percent for Tanzania to 12.4 percent for Zimbabwe (which also has the highest percentage of minority-owned firms). Slightly less than half of all entrepreneurs have completed high school in all countries except Tanzania where the number is only 9 percent. The percentage of entrepreneurs who have completed a university degree is highest for Zimbabwe (26.1 percent) and lowest for Zambia (15.7 percent). The percentage of firms owned by women is the lowest for Tanzania (7.1 percent) and highest for Zimbabwe (19.4 percent). The share of medium and large firms owned by women is very small in all four countries; female ownership is concentrated in the category of very small firms. There is a clear correlation between education and size; a much higher percentage of entrepreneurs managing medium and large firms have University degrees than those managing very small and small firms. The amount of previous business experience is roughly similar across countries; between 31 and 52 percent of entrepreneurs own another business concurrently. Between 9 and 20 percent of entrepreneurs have parents in the same business. Firms in all four countries start out with an average of less than twenty employees but have very different mean levels of employment at the time of the RPED survey. Entrepreneurs in the sample are in their mid-forties and the average age of the firm is between thirteen and eighteen years.

The RPED data reveal significant differences in the characteristics of firms owned by entrepreneurs of Asian, European and African heritage. African entrepreneurs own almost 90 percent of very small firms, consisting of less than ten employees. Asians own most of the firms with more than 250 employees in Tanzania, Zambia, and Kenya, while Europeans are the dominant owners of large firms in Zimbabwe. A significantly higher fraction of Asian and European entrepreneurs have University degrees, have worked in a foreign-owned or managed firm, and currently own another business. However, more African entrepreneurs have established their own businesses; Asian and European entrepreneurs are more likely to have inherited or bought their businesses. Africans also have the highest share of female entrepreneurs in every country in the sample.

The econometric results confirm earlier RPED findings that firm age and initial size and statistically significant and inversely correlated with change in employment. They also show that Asian and European firms grow at a significantly higher rate than African firms. This result is consistent with the hypothesis described above. Minority entrepreneur firms enjoy a higher rate of firm growth that is presumably due to the various advantages of being part of an

ethnic minority network, such as access to credit and informal contractual mechanisms. Finally, *formal education* (both secondary and university) is significantly correlated with firm growth and may serve as a substitute for access to networks of minority-owned firms. Access to education presumably increases managerial skills, including the ability to hire and manage larger numbers of people, thereby generating employment at a higher rate in the private sector in Africa.

This article is based on the publication, "Minority Entrepreneurs and Firm Performance in Sub-Saharan Africa" by Vijaya Ramachandran and Manju Kedia Shah, RPED Paper#080, May 1998 (revised April 1999), Africa Region, World Bank, Washington DC. For more information, please e-mail Mmbuyi@worldbank.org