Frontiers in African Business Research

Leona Achtenhagen
Ethel Brundin *Editors*

Entrepreneurship and SME Management Across Africa

Context, Challenges, Cases

Springer

Frontiers in African Business Research

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About the Editors

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Contributors

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Benson Honig (Ph.D. Stanford University) holds the Teresa Cascioli Chair in Entrepreneurial Leadership, DeGroote School of Business, McMaster University, Ontario, Canada. Studying entrepreneurship worldwide, his research includes over 80 books and articles on business planning, nascent entrepreneurship, transnational entrepreneurship, social entrepreneurship, social capital, scholarly ethics, and entrepreneurship in environments of transition. He is a board member of the Africa Academy of Management, past chair of the Academy of Management's Ethics Education Committee, and a blogger on the Academy of Management's *ethicist*. Honig is cowinner of the Grief award for the highest five-year impact article in entrepreneurship in 2009, as well as the most cited paper for *Journal of Business Venturing* between 2003 and 2009. He is a former editor of *Entrepreneurship Theory & Practice* and serves on eight editorial boards, including *Journal of Business Venturing*, *Strategic Entrepreneurship Journal*, *Academy of Management Learning & Education*, and *Journal of Management Studies*.

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Malin Tillmar is a professor in business administration, Department of Management and Engineering, University of Linköping, Sweden, and codirector of the HELIX VINN Excellence Center. Her research focuses on organizing entrepreneurship and its preconditions in different contexts, both sectoral and national. Interorganizational relationships and social entrepreneurship are among her research areas, as are issues of gender and diversity. Tillmar's interest in East African society dates back to the 1990s, and she keeps returning to this context for her research.

Chapter 1
Introduction

Leona Achtenhagen and Ethel Brundin

Abstract This chapter provides an introduction to this edited volume and its main themes Context, Challenges, and Cases. It briefly introduces the different chapters included in each of these themes.

Keywords Conference on Recent Trends in Economic · Development · Finance and Management Research in Eastern Africa · Context · Challenges · Case Rwanda · Entrepreneurship · Small business management · Chapter information

A decade or two ago, researchers in entrepreneurship and small-business management did not bother much about the African continent. The situation is quite similar even today. This is reflected by the fact that major entrepreneurship and management journals have published only a few articles covering this area so far. But, speaking with Bob Dylan's lyrics, 'the times they are a changin,' today we see an increasing societal and economic interest in what is sometimes called the 'the New Africa' (e.g., by *The Financial Times*: http://www.ft.com/intl/reports/new-africa). This interest is sparked, for example, by increasing levels of foreign direct investment in many African countries from different parts of the world. Alongside, there are numerous entrepreneurial initiatives taking advantage of emerging business opportunities and also creating new challenges. This increasing societal and economic interest is matched by an 'academic awakening.' This is evidenced, for example, by the fact that since 2012, the well-renowned management organization, the Academy of Management (AoM), has a sister organization in Africa, the Africa Academy of Management (AFAM), with biennial conferences that attract researchers both from the African continent and also from other parts of the world.

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Previous research has arrived at mixed and inclusive results about African entrepreneurs and entrepreneurial firms in Africa (Kiggundu 2002). In his review on this topic, Kiggundu argues that this may be due to conceptual and measurement problems and also because of differing societal values and practices. In a similar vein, in their study on ethnic entrepreneurs, Brundin et al. (2009) conclude that entrepreneurship that is 'measured' and 'tailored' according to the Western discourse may lead to lock-in effects and may thus not necessarily be relevant in the African context. To treat Africa as one unit, as is done in some literature, is also a bit odd, considering its size and its cultural, economic, social, and institutional differences (Lombard 2014).

While the main title of this edited volume might suggest that we are also treating Africa as one large unit, the subtitle 'Context, Challenges, Cases' points out that our aim is to draw attention to specific contexts and different types of challenges encountered across different parts of Africa and digging deeper into one country, Rwanda. According to us, the main contribution of this book in its entirety is that it enriches our knowledge and extends our understanding about different, specific contexts and challenges for entrepreneurship on the African continent and how these contexts and challenges interact keeping in mind that the circumstances described in different chapters do not always correspond to what is commonly referred to as 'entrepreneurship and SME management' with a Western world's interpretation.

Given its potential impact on economic and societal development, entrepreneurship is a highly relevant field of study on the African continent. Much of the existing literature on this topic, including this edited book, forms a basis not only for a better understanding of entrepreneurship on the African continent and in its different countries for Africans, but also for people in the rest of the world like researchers, entrepreneurs, managers, investors, and policymakers. This edited volume presents a diverse set of topics spanning across a number of different countries and regions in Africa and concludes with a commentary provided by Professor Benson Honig, a leading expert on entrepreneurship on the continent.

1.1 The 2015 Conference on Recent Trends in Economic Development, Finance and Management Research in Eastern Africa

This edited volume is an outcome of a project funded by the Swedish International Development Cooperation Agency (SIDA). The project involves developing doctoral programs in economics and management and research capacity building and training and career development initiatives at the University of Rwanda's College of Business and Economics (UR-CBE). The project is implemented jointly by Jönköping International Business School (JIBS) at Jönköping University, Sweden, and the College of Business and Economics at the University of Rwanda. The doctoral programs aim at building local teaching and supervision capacities, while the career development initiative aims at assisting faculty and staff of UR-CBE to develop their research and academic writing skills.

A number of chapters in this volume were selected from papers presented at the conference, 'Recent Trends in Economic Development, Finance and Management Research in Eastern Africa,' in Kigali, Rwanda, on May 4–6, 2015. The conference was jointly organized by JIBS and UR-CBE as the first conference of what is planned to be a yearly event. Theoretical, methodological, and empirical research and policy or practice-oriented papers were invited, provided that they were based on sound conceptual foundations with well-thought-out methods. Applied and practice-oriented manuscripts could focus on East Africa as a whole, or on a group of countries or individual economies in the region. Priority was given to studies on East Africa, but submissions from the rest of Africa were also welcome. The selected papers went through several rounds of revisions. These chapters were complemented with invited contributions which went through the same reviewing process to arrive at the same academic standards. We would like to thank Professor Almas Heshmati for his great support in preparing this volume.

1.2 The Chapters

This edited volume reflects topics and issues that are currently relevant to the research agenda on the African continent, addressing a range of different entrepreneurship and management issues. The increasing research interest related to Africa can also be explained by growing insights about the relevance of context (Welter 2011). This is captured in the first section of this volume, 'Context.' The specificity of the studied context leads to different challenges, which enhance the necessity for research capturing these challenges as related to the African context. A number of such challenges are addressed in the second part of this book, in the section 'Challenges.' The third part, 'Cases,' is devoted to Rwanda as a case in itself, with a specific focus on the country's attempts at becoming a developmental state promoting entrepreneurial activities to overcome the aftermath of the genocide in 1994, in which an estimated half million to one million Rwandans were killed.

1.2.1 Section I: Context

The first section consists of Chaps. 2–4, which discuss the specificities of the African context for entrepreneurship and small-business management.

In Chap. 2, André Dumas Tsambou and Ludwick ler Ndokang Esone discuss Cameroon's context to map the characteristics of entrepreneurs in the country as well as the relationship of these characteristics with their firms' performance. The authors argue that very little is known about what characterizes entrepreneurs in this particular context and, drawing on data from the General Census of Enterprises in Cameroon, find that characteristics such as education, experience, training, and network abilities play a major role in the performance of a firm.

In Chap. 3, Adele Berndt throws light on the recent phenomenon of crowdfunding, which is also gaining momentum in the African context. She informs readers about how crowdfunding works and presents a number of different crowdfunding platforms in South Africa, Kenya, and Ghana. While Berndt discusses the high potential of this funding option for entrepreneurship in the African context, she also points at hurdles like infrastructural constraints that need to be overcome.

In Chap. 4, Malin Tillmar introduces entrepreneurs' realities in the contexts of Kenya, Tanzania, and Uganda. While these three countries show high increases in GDP growth and in purchasing powers, Tillmar illustrates the difficulties that entrepreneurs face in starting and running their businesses. Many of the entrepreneurs that she interviewed had to deal with fraud, corruption, and lack of trust. Tillmar also discusses how the lack of business dispute resolution mechanisms might be an impediment in the development of entrepreneurship and SMEs. Her study also shows how women entrepreneurs suffer more because of lack of such mechanisms as compared to their male counterparts.

1.2.2 Section II: Challenges

The second section has Chaps. 5–8 which address distinct challenges for entrepreneurs and SME managers in different African contexts.

In Chap. 5, Olaide R. Akande, Orefi Abu, and Hephzibah O. Obekpa focus on microfinancing institutions and illustrate the struggles that these organizations in Africa face due to a lack of regulations, which impedes them from operating in optimal ways. The authors assess major institutional challenges and suggest how these can be reduced to improve financial access for entrepreneurs and SMEs. For example, the authors propose changes in the regulatory environment as well as increasing the amount of available funding.

In Chap. 6, Ismael Byaruhanga and Bikadho Patrick Othuma discuss organizational citizenship behavior (OCB). Through a quantitative study among SME employees and supervisors in Rwanda and Uganda, they test the relationship between empowerment, trust, engagement, and organizational citizenship behavior, building on a social exchange theory framework. Even though they find empowerment to be a strong predictor of OCB, they also find differing results between employees and supervisors regarding the relationship between trust, engagement, and OCB. The authors discuss different reasons for the conflicting views between employees and the management and suggest ways for facilitating OCB and thereby the efficiency and effectiveness of SMEs.

Chapter 7 takes readers to South Africa and the challenge of developing a sustainable hybrid organization. With the assistance of a detailed empirical illustration of the social enterprise Greenpop, Alina Greinert and Duncan Levinsohn discuss the challenge of balancing two logics—that of ensuring financial sustainability while creating social and environmental values. The authors outline strategies about how a hybrid organization can be developed. These include addressing societal needs and maintaining focus, strategic partnerships and a shared vision and values among employees and founders.

In Chap. 8, Omaima Hatem highlights the challenges of obtaining entrepreneurial success in a hostile environment. Her case about an entrepreneur in diaspora, returning to his home country Sudan, shows that entrepreneurship in the African context not only springs from necessity but can also be very innovative. The case description helps readers understand how the entrepreneur combined his experience and acquired knowledge from another environment with the knowledge of the unique institutional structure and network in his home country and also in other African countries. His success does not end with personal gains and charitable activities, but it also brings financial benefits to his employees.

1.2.3 Section III: Case Rwanda

In the final section, Chaps. 9–12 focus on Rwanda as a case and point out the specificities of its context and challenges. The first chapter in this section sets the scene by describing Rwanda as a developmental state, while the three remaining chapters discuss different results and challenges of its movement toward a developmental state.

In Chap. 9, Zsuzsánna Biedermann introduces this section by analyzing the degree to which Rwanda and the government's attempts at creating political stability through economic growth fit into the concept of a developmental state, which had been originally developed to characterize the development of some Asian countries. She points out a number of factors that have contributed to Rwanda's successful transformation after the genocide including a transformative leadership, a focus on building an entrepreneurial society, adapting the developmental state concept by combining indigenous knowledge and innovative ideas and an effective public bureaucracy.

In Chap. 10, Jan Macháček and Milada Dušková report on a dilemma arising from a transition toward a developmental state in Rwanda. As one of the measures of enhancing economic development in the country, the government wants to increase mineral exports. This mining is often done with artisanal techniques and on a small scale. Based on a study of artisanal and small-scale mining in the Rutsiro area, the authors show how on the one hand this mining opens up entrepreneurial activities leading to better incomes and living conditions in the region, but on the other hand also leads to irreversible environmental devastation. The authors provide a detailed discussion on the different sides of this challenging dilemma.

In Chap. 11, Celestin Ndikumana and Rama Rao Bokka address another challenge deriving from Rwanda's transition. In addition to the export of minerals discussed in the previous chapter, another aim of the government is developing the tourism sector to support the country's political and economic stability. The current rapid growth of the tourism sector increases the need for qualified personnel within the hotel industry in Rwanda. In order to map the level of training and development activities and employees' performance as a result of training activities, the authors conducted a study combining the viewpoints of employees and managers in the most highly ranked hotels in Kigali. They offer recommendations for employers within the sector and also for policymakers.

In the last chapter in this section, Samuel Mutarindwa and Jean Bosco Shema discuss yet another challenge deriving from Rwanda's move toward a developmental state which is connected to the privatization of formerly state-owned businesses. The authors provide insights about the challenge of introducing governance practices in post-privatized firms in Rwanda. Based on a single case study, they find that its governance practices are contradictory to the 'coursebook' and find that this is partly related to institutional and regulatory factors.

1.3 Concluding Remarks

This volume concludes with remarks by Benson Honig, a leading academic expert in the field of entrepreneurship in Africa.

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Part I
Context

Chapter 2
Cameroon: Characteristics of Entrepreneurs and SMME Performance

André Dumas Tsambou and Ludwick 1er Ndokang Esone

Abstract Small-, medium-, and micro-sized enterprises (SMMEs) constitute a vast majority of businesses in Cameroon and are a vital source of its economic growth, dynamism, and flexibility. SMMEs as economic agents are not only built on their intrinsic qualities, but also rely on information from the business environment. This chapter assesses the impact of entrepreneurial characteristics on the performance of SMMEs. The data used for this study are 'the General Census of Companies in Cameroon,' conducted with 93,969 companies by the National Institute of Statistics (INS). The study uses multiple regressions to assess the direct effects of entrepreneurs' characteristics on the performance of their SMMEs. A statistical analysis of the data reveals that men (60 %) are more entrepreneurially active than women and are mostly less than 50 years old (80 %). Econometric analyses show that characteristics such as gender, age, training, level of education, country of origin, and the share of capital of an entrepreneur significantly influence a SMME's performance. Further, the social networking capacity of entrepreneurs facilitates economic action and allows them to expand the scope of their businesses by saving resources and leveraging exclusive resources and opportunities. These relationships help the entrepreneurs transform human and financial resources into profit. The level of education feeds into a persistent entrepreneurial logic, and vocational training received by Cameroonian entrepreneurs determines their career opportunities and the performance of their ventures.

Keywords Entrepreneur · SMME · Performance · Entrepreneurial characteristics

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2.1 Introduction

Small-, medium-, and micro-sized enterprises (SMMEs) are the backbone of all economies and are a vital source of economic growth, dynamism, and flexibility in both industrialized countries and emerging economies and developing countries. SMMEs played an important role in innovation, job creation, and the development of industrialized countries during the twentieth century (Quiles 1997). In developing countries, mainly in sub-Saharan Africa (SSA), SMMEs are the dominant form of business, representing between 95 and 99 % of the business depending on the country: about 99 % in Cameroon with a strong representation (89 %) of individual companies (INS 2009), 93 % in Morocco, 90 % in the Democratic Republic of Congo, and 95 % of manufacturing activity in Nigeria (OECD 2006). Despite this weight, the contribution of SMMEs to the gross domestic product (GDP) is estimated at less than 20 % in most African countries, while it is up to 60 and 70 % in OECD countries (Admassu 2009). In addition, SMMEs operating in sub-Saharan African countries, on average, employ less than 30 % of the workforce in the manufacturing sector, while this proportion is 74.4 % in Asian countries, 62.1 % in the countries of Latin America and the Caribbean, and 73.1 % in OECD countries (Ondel'ansek 2010). In Cameroon, SMMEs employ 61 % of the workforce and their contribution to GDP is estimated at 31 % (INS 2009).

Given this contrast, the various elements that contribute to the development of SMMEs, such as improved financial conditions through the creation of a bank for SMMEs, are not enough to boost the growth, development, and sustainability of these companies. This is due to the business environment characterized by, for example, technological breakoffs; profound changes in consumer habits; national and global economic crises; and sudden changes in national economies. In such a turbulent environment characterized by complexity, uncertainty, and dynamism, the mortality rate of these companies in the start-up and growth phases is still important (according to OECD 2001, 60 % of operational SMMEs do not pass the milestone of 40 years). One of the main factors behind the bankruptcy or death of emerging African SMMEs (Capiez and Hernandez 1998) is the lack of skills by entrepreneurs and/or corporate leaders to penetrate new markets (Kamdem 2011). Thus, we might actually invoke the fact that some key skills derive directly from an entrepreneur's characteristics such as experience and training. An entrepreneur's characteristics are thus considered as a factor that comes into play for the success, development, and sustainability of the business. Given the important role of entrepreneurs in the functioning of SMMEs (with strong representation of individual companies at 89 %), many published works highlight the significant impact of an entrepreneur's characteristics on the performance of the business he/she manages (INS 2009). This effect is explained in relation to certain demographic, psychological, and behavioral characteristics of the entrepreneur as well as in relation to his/her management abilities and technical expertise. According to the Cameroon National Institute of Statistics (INS 2009), the characteristics of a Cameroonian entrepreneur are defined by his/her background (age, sex, level of study, nationality, and creation nature);

triggering effects (region, professional training, belonging to a group, and religion); and environmental factors (the source of social capital, the legal form of the firm, technological innovations, and ICT usage).

A study by Lorrain et al. (2002) on entrepreneurs' characteristics concludes that entrepreneurs who are most successful tend to be older, more experienced, more motivated, and more competent. Similarly, Aldrich and Davis (2000) in their study on the organizational advantage of social capital conclude that social capital, the social and relational environment of an enterprise, and an entrepreneur's networking activities significantly influence the performance of his/her business. In addition, studies also show that the acquisition or development of skills, knowledge, and qualifications by an entrepreneur during the early years of the company (Gartner et al. 1999) through various forms of learning (Chabaud et al. 2010) has an influence on the growth of the company. Morris (1998) in his studies in entrepreneurship concluded that most SMMEs remain small and non-performing after several years of operations due to lack of experience of entrepreneurs. Thus, entrepreneurs' characteristics are central to the performance of SMMEs and therefore constitute a management issue from the perspective of an increasingly strong cross-fertilization of research in entrepreneurship and human resource management (Chabaud et al. 2008). Entrepreneurship, being a dynamic process of creating and developing an organization in which the creator mobilizes and combines resources (human, information, material, and financial) to increase opportunities for a structured project, an entrepreneur would be both an actor of wealth creation and a subject of the value creation. Based on different paradigms of entrepreneurship (innovation, creation of organization, organizational emergence, value creation), an entrepreneur is the initiator of performance; that is, he/she is an economic agent and an engine of technological progress. He/she organizes, plans production, and bears all risks (Schumpeter 1935). Entrepreneurs have a special and indispensable role in the evolution of a liberal economic system. They are often at the source of destructive creative innovations (Schumpeter 1939). They create businesses and jobs, and contribute to the renewal and the restructuring of the economy.

Schumpeter's analysis (1935) emphasizes the place of an entrepreneur in the creation, growth, and corporate development processes. This place is all the more essential in the case of SMMEs, as an entrepreneur is a heroic figure in these types of businesses (Capiez and Hernandez 1998; Julien and Marchesnay 1988). In addition, the process of creating a new Cameroon social system through speedy business creation in 72 h (a decree signed by the Prime Minister of Cameroon in 2010 to alleviate the business creation process and thus ease start-up procedures for companies) puts an emphasis not only on the role of supporting organizations and following-up structures for entrepreneurs, but also takes into account the characteristics of entrepreneurs in 'tying up' their opportunities. In recognizing that the process of creating and developing SMMEs involves not only the characteristics of an entrepreneur, but also different features of an incubator organization and an entrepreneur's socioeconomic environment, this chapter answers the question:

What is the impact of entrepreneurial characteristics on the performance of newly created SMMEs in Cameroon?

Given the scarcity of publications on the impact of individual characteristics and qualities of an entrepreneur on the performance of SMMEs in Cameroon, this work attempts to fill this gap by assessing the impact of entrepreneurs' characteristics on the performance of SMMEs. Analyzing and evaluating the effects of entrepreneurial characteristics on the performance of SMMEs can help us provide policy recommendations that can create a favorable environment for entrepreneurship in Cameroon. The remainder of this chapter is organized as follows: The following section reviews literature related to the theoretical foundations of entrepreneurial characteristics that influence the creation, development, and performance of SMMEs. Section 2.3 presents the methodology and data used in this work. The results are discussed in Sect. 2.4.

2.2 Literature Review

A big stream of literature highlights the significant impact of an entrepreneur on business performance (Cooper 1993; Allemand and Schatt 2010). As a majority of the SMMEs in Cameroon are individual enterprises (Alizadeh 2000) (having only one shareholder who also manages the company), their performance can be explained in relation to certain demographic, psychological, and behavioral characteristics of entrepreneurs as well as in relation to their abilities in management and their technical know-how. Entrepreneurs' characteristics such as experience, education level, age, sex, and networking are used to explain the success or failure of a newly created company. Lorrain et al. (2002), studying the characteristics of SMME entrepreneurs, conclude that entrepreneurs who are most successful tend to be those who are older, more experienced, more motivated, and more competent. Cooper (1982) concludes that experience in creating or managing a business is a prerequisite for an entrepreneur's success and contributes in one way or another to the performance of the created company. Yet, Van Beest et al. (2009) refute this assertion by stipulating that previous work experience has no influence on the success or performance of a newly created company. Smallbone (1990) also pays considerable attention to the influence that qualifications have on an entrepreneur's sustainability or cession of a newly created company.

According to human capital theory, knowledge increases individuals' abilities and contributes to the management of activities (Becker 1964), and some authors establish relationships between education, entrepreneurship, and success in economic activities and value creation (Davidsson 2002). Therefore, authors believe that (formal or informal) education and various individual experiences are factors that favor entrepreneurial activities. They suggest, for one, the influence of human capital on performance. Marvel et al. (2007), studying the experience, education, and original knowledge in technology of high-tech entrepreneurs, conclude that the human capital of 'technological entrepreneurs' gives them unique advantages. From the same point of view, Wright et al. (2007) show the positive influence of human capital characteristics on the success of technological entrepreneurship and business performance. Hambrick (2007), in a study on the growth of SMME start-ups, concludes that business performance depends on the leaders' characteristics, including their training and experience. In the same vein, Allemand and Schatt (2010) analyze the impact of entrepreneurs' training while simultaneously taking into account their experience and the ownership structure which determines both the incentives of the entrepreneurs and their constraints in decision making. They conclude that training reflects the cognitive base of executives, thus acting in the same way as other idiosyncrasies over their perceptions and interpretations of the situations that they face. Similarly, focusing their interest on training as part of managerial human capital, Castanias and Helfat (2001) state that this indicator is a source of value creation and corporate managerial rents. That is, training in colleges and universities pursued by some Cameroonian leaders should be synonymous with higher performance of the companies that they lead. Human capital is thus an essential characteristic of entrepreneurs.

Following criticism of individual characteristics, many authors have focused on the social and relational environment of a company and an entrepreneur's networking activities (Aldrich et al. 1987; Aldrich and Dubini 1991). For Mizruchi (1996), the influence of an entrepreneur's characteristics on a firm's performance can also be explained by the fact of belonging to networks. That is, social relations and personal contacts that entrepreneurs develop throughout their lives can be very useful because they allow access to various benefits and advantages. In their study on access to social networks, Lin and Dumin (1986) conclude that contacts from entrepreneurs' social networks are used to improve the performance of their businesses. The relationships which result from these are a valuable resource for conducting businesses as they facilitate economic action and allow entrepreneurs to expand their scope, to save their resources, and have access to exclusive resources and opportunities. According to Burt (1992), these networks help an entrepreneur to provide three categories of resources to the business: financial resources (such as cash, bank deposits, and credit lines), human resources (skills, charisma and intelligence, competences, and education), and information resources (recognition of opportunities). Neergaard and Madsen (2004) and Burt (2000) show that large networks with a high number of contacts are quite important for the development of entrepreneurial projects as they enable them to access resources held by other actors in the network. Similarly, having an extensive network of contacts could help a company's performance (Baron 2007). Indeed, entrepreneurs having extended contacts should have less difficulty in finding, selecting, and retaining partners (customers, suppliers, distributors, etc.) and also in reducing their dependency on them. Similarly, maintaining more social ties will allow entrepreneurs to better market their products and reduce certain costs including those related to information search, decision making, fees paid to intermediaries, and trading activities (Plociniczak 2001). Certainly, many works highlight the importance of an entrepreneur's social networking on the performance of his/her company

(Batjargal 2001). However, only a few studies have been carried out in Cameroon on this issue.

In summary, this discussion leads to the following hypotheses:

(a) The cognitive characteristics of an entrepreneur (training, level of education, experience) positively affect the performance of a firm.
(b) Social networking abilities of an entrepreneur (quality of social capital) favor an improvement in a firm's performance.

2.3 Methodology

For the purpose of our study, econometric modeling proves to be essential. The characteristics of an entrepreneur analyzed in this work are devoted to measuring the output of an entrepreneur in terms of the performance of the firm. Many authors (Gauzente 2011; Ananga et al. 2013) have focused on measuring the performance of a firm. However, they did not use the same measuring instruments. These countable indicators of a company are calculated from an assessment of the earning reports of a company and are associated with its economic and financial performance. Among other things we find: growth in sales turnover, production, added value, rough operating surplus, rough operating results, and net operating profits.

Based on Cooper's model (1979), adapted by Lacasse (1990), which has proved to be a promising research approach to study the reality prevailing in Cameroon (INS 2009), this study assesses the impact of entrepreneurs' characteristics on the performance of SMMEs. Next, we present our data source, the specification of the model, the choice of variables, and statistical analyses.

2.3.1 Data Source

Data used for this research are from the General Census of Enterprises (RGE) realized in 2009 by the National Institute of Statistics (INS). This census involved 93,969 companies and institutions operating in Cameroon. The survey represented 86.5 % of the tertiary sector, 13.1 % of the secondary sector, and only 0.4 % of the primary sector. The main objective of the census was to have a better understanding of the current situation of enterprises and institutions in order to develop strategies for public authorities, economic operators, and other analysts to effectively play their roles. In general, information in this survey is related to companies, managers, and employees; the business environment; technological innovations; and use of ICT and production stock. For the present study, we had to extract data relative to firms, their managers (entrepreneurs), and the business environment. This led us to specifically focus on an entrepreneur's characteristics (age, sex, level of education, professional experience, social networking capacity, etc.) and the link with a firm's performance. As control variables, we took information relative to companies (age, industry, the size, value added), employees (age, sex, level of education, professional experience), business environment (state of corruption, opportunities, and competition), technological innovations, use of ITC, and production stock. The RGE survey covers the entire country by targeting all economic units spotted on the field. We focused our interest only on SMMEs operating in professional fixed and permanent locations. From the 93,969 companies and institutions surveyed, we extracted 36,976 that integrated our study requirements. The classification used here is that of the National Institute of Statistics (INS 2009), which considers businesses with not more than five employees and a turnover less than US$ 27,275 as micro-businesses; small businesses are companies with the number of employees between six and 20 and a turnover of between US$ 27,275 and US$ 180,820; and medium-sized enterprises are companies with between 21 and 100 employees and a turnover between US$ 180,820 and US$ 1,818,182.

2.3.2 Specification of the Econometric Model

To estimate the performance of firm *i,* one can postulate a relation binding its gross margin $\boldsymbol{Y_i}$ to its inputs, $\boldsymbol{K_i}$, capital, and $\boldsymbol{L_i}$, labor (see for example King and Park 2004).

$$Y_i = \theta_i f(K_i, L_i) \tag{2.3.1}$$

where factor θ_i collects the productivity of the company.

By supposing a functional form of the Cobb–Douglas equation type, we can therefore obtain a log linear relation as:

$$\ln Y_i = \ln \theta_i + \beta_K \ln K_i + \beta_L \ln L_i \tag{2.3.2}$$

The measurement of the performance used in this study can be the sales turnover, the profit or the added value. Each measurement integrates at least one of three shutters: the quantity and the set of market products, selling prices of goods and the cost of acquisition of goods. Each of these shutters can be affected by characteristics of the entrepreneur, characteristics of the company, and related commercial practices. In this analysis, we consider two main inputs: the capital which we approximate by investments carried out by a company since its creation. The second component is the labor factor which includes the total number of permanent and temporary workers, which is a fraction of the annual total number of working hours carried out by permanent and temporary employees.

Productivity $\boldsymbol{\theta_i}$ is unobservable by the econometer. We make the assumption that this depends on the characteristics of an entrepreneur (like Paulson et al. 2006) and on the characteristics of a company and the market (see King and Park 2004). Based on this clarification, we suppose that productivity depends, beyond the business climate, on the intrinsic characteristics of an entrepreneur. We can thus express the logarithm of productivity $\boldsymbol{\theta_i}$ of company $\boldsymbol{i}$ as:

$$\ln \theta_i = \alpha_0 + \gamma X_i + \lambda Z_i + \tau C_i + \varepsilon_i \tag{2.3.3}$$

where $\boldsymbol{X_i}$ is a vector of variables controlling characteristics specific to an entrepreneur such as the level of education, experience, gender, age, and social networking abilities and mainly takes into account his/her managing capacities; $\boldsymbol{Z_i}$ is the vector of characteristics specific to the company such as the age, the branch of industry, and the geographical situation; $\boldsymbol{C_i}$ is the vector of variables related to environmental factors and the triggering events for an entrepreneur. $\boldsymbol{\mathcal{E}_i}$ can be seen like errors of measurement or shocks on the productivity of the company. By combining Eqs. 2.3.2 and 2.3.3, we obtain a reduced form of the model, which can then be written as:

$$\ln Y_i = \alpha_0 + \gamma X_i + \lambda Z_i + \tau\, C_i \ + \beta_K \ln K_i + \beta_L \ln L_i + \varepsilon_i \tag{2.3.4}$$

Taking into account the broad variance in the size and type of company, and the heterogeneity of the firm's activities, the traditional assumption of the constant variance of the stochastic term of error in this model is likely to be violated. We thus suppose heteroscedasticity by expressing the variance of errors like a multiplicative function of all explanatory variables of the model (see, for example, Harvey 1976 or Greene 2003: 232–235). The parameters of the model are estimated by the maximum likelihood method which minimizes the sum of the squares of errors. Given the size of our sample, standard deviations might not be correctly estimated if one uses the asymptotic matrix of variance–covariance.

2.3.3 Choice of Variables

The development of an entrepreneurial culture in Cameroon relies as much on factors related to the entrepreneurs themselves, their families, their motivations, and the business environment and to the actual location of a company. In the hope that the factors explaining entrepreneurs' characteristics affect entrepreneurship and thereby boost the performance of SMMEs, we describe the variables related to the characteristics of an entrepreneur, variables related to triggering events for an entrepreneur, and variables related to the environmental factors of an entrepreneur (Table 2.1).

Table 2.1 Description of variables

Variables	Description
Standard performance factors	
CA	Turnover of the year of survey in US$
VA	Added value of the year of survey in US$
NL	Total labor force
Entrepreneur's characteristics	
Age	Age of the entrepreneur 1 = 30 years or less, 2 = 30–39, 3 = 40–49, 4 = 50–59, 5 = beyond 60
Sex	1 = male, 2 = female
Education	Level of study of the entrepreneur 1 = without any certificate, 2 = CEP, 3 = BEPC, 4 = Probatoire, 5 = BACC, 6 = License, 7 = BTS, 8 = Maitrise, 9 = DEA/Master
Nationality	Nationality of the entrepreneur 1 = Cameroon, 2 = CEMAC, 3 = Africa, 4 = Europe, 5 = Asia, 6 = other
Training	Training acquired by the entrepreneur 0 = without training, 1 = professional, 2 = apprenticeship, 3 = continued
Triggering variables	
Region of the entrepreneur	Region of origin of the entrepreneur 1 = Douala, 2 = Yaoundé, 3 = Adamaoua, 4 = East, 5 = Extreme north, 6 = North, 7 = Northwest, 8 = West, 9 = South, 10 = Southwest
Variables linked to an entrepreneur's environment	
PART_CAPT	Capital participation : 1 = Yes, 2 = No
SA	Sector of activity (operation) of the SMME 1 = primary sector, 2 = secondary sector, 3 = tertiary sector
TYP	Type of SMME (1 = Micro, 2 = Small, 3 = Medium)
Control variables	
Tatut_Jur	Legal form of the SMME 1 = individual company, 2 = PLC, 3 = AS

2.4 Results

2.4.1 Descriptive Statistics and an Econometric Estimation of the Model

Table 4.2 shows the descriptive statistics of the variables used in different tests depending on the company size. It shows that more men (60 %) than women (29 %) were entrepreneurs regardless of the type of business. This suggests that gender influences the decision to create a business or not. This is explained by the fact that women in Cameroon spend more time taking care of family issues and domestic tasks. Dominique (2008) shows in his book that 80 % of domestic tasks are done by women who spend 33 h per week on these tasks, against 16.30 h per week spent by men. Cameroonians of all ages create businesses. An analysis by age shows that 80 % of SMME entrepreneurs were less than 50 years. The youngest were eager to become entrepreneurs, but they usually had neither the money nor the experience to do it. In addition, the older may have the capital and experience required, but they have families to support and are reluctant to leave their careers to become entrepreneurs.

Nearly 92 % of the entrepreneurs were Cameroonians and had at least FSLC[1] (70 %). The nature of training completed was a determining criterion for Cameroonian entrepreneurs' characteristics: 19 % had no training, 52 % had not received proper training to help them exercise their profession, but rather had opted for 'learning by doing' as against 20 % and 9 %, respectively, who had received a diploma in vocational training and continuous education. The latter are more dynamic in business relations and tend to have the knowledge and know-how to run their businesses in a rational and healthy way. They might have multiple business opportunities, especially with the ongoing digital revolution, particularly the further development of ICTs. A new company is based on the knowledge and expertise of its founder and these often depend on the skills acquired by an individual within the incubator organization and on experiences acquired while learning on the job.

Approximately 79 % of the entrepreneurs incubated in individual enterprises (IE), against 4 % of businesses housed in the form of private limited companies (PLCs) and 1 % entrepreneurs who had created anonymous societies (AS). In fact, the legal form of a business is best known as the corporate status of people, not of capital. The low proportion of capital corporations in general and anonymous corporations in particular is due to the fact that anonymous corporations require an opening capital of at least US$ 18,185 and they are usually assessed by an auditor registered in the auditor's order. Other forms of companies account for just 15 % of all Cameroonian companies. A statistical analysis shows that there is a significant relationship between the gender of an entrepreneur and the company's performance.

2.4.2 Econometric Estimation Results

Entrepreneurs act on the basis of the personal interpretations that they make of the strategic situations that they face. These interpretations are based on their experiences, cognitive patterns, values, and behavioral biases. The models clearly express a relationship between an entrepreneur's characteristics and performance since the null hypothesis of the absence of overall influence of independent variables on the dependent is rejected (use Fisher's test: Global F test). Even if they explain 22, 12, and 36 % of the variation, respectively, in the performance of micro-, small-, and medium-sized enterprises (adjusted R2), the explanatory variables are statistically

[1]FSLC: First School Leaving Certificate is the very first certificate obtained after completing primary and elementary education.

significant in the regression with p values below 0.01, 0.05, and 0.1, respectively (Table 3.3).

Variables related to capital and labor are significant at a 1 % risk for all types of SMMEs. These results establish that the growth of added value remunerates capital up to 82.74, 26.36, and 34.37 % for micro-, small-, and medium-sized enterprises, respectively, and labor for about 19, 30 and 74 % for micro-, small-, and medium-sized enterprises, respectively (Tables 2.2 and 2.3).

2.4.2.1 Age

Regarding the age of an entrepreneur, the nonsignificance of age for young entrepreneurs (under 30 years) is justified by the fact that the category of companies which features a majority of young entrepreneurs (such as taxis, call boxes, outdoor activities on the shelves, street merchants) is excluded from the sample. Rather, Cameroonian entrepreneurs aged more than 30 have a negative influence (statistically significant at the 1 % level) on a firm's performance. These results can be explained in two ways: either the entrepreneur has no training or experience in the field and thus fails to adapt to the changing socioeconomic environment leading to decreasing performance, or the rooting of the entrepreneur (family, religion) has a negative influence over time on the company's performance. These results confirm previous studies on the rooting of an entrepreneur in the business (Jorissen et al. 2002). Yet, one would expect a positive influence given that the entrepreneur has more experience in the market. This may underline the presence of deviations related to the altruism of owner-managers who take decisions alone and may be tempted to take them in order to enrich themselves (excessive private withdrawals), which could be detrimental to the firm's performance. Our results confirm previous studies that discuss the fact that the company's owner-manager is enrooted and established over his/her firm (Gallo 1995, for Spanish enterprises; Cromie et al. 1995, for Northern Ireland; and Jorissen et al. 2002, for Flemish companies). There should be more stimuli to incite young entrepreneurs to create more firms and in their performance. Most young entrepreneurs (less than 30 years of age) manage informal and outdoor activities that are not much appreciated. But these young entrepreneurs are highly skilled, well trained (most of them have a degree), easily integrate ICT in their daily practice, and are oriented toward innovations. But most of them have difficulties in obtaining funds from creditors to launch their own start-ups given market uncertainties and lack of credibility that they show due to their inexperience and a lack of tangible assets that could serve as safeguards in the eyes of creditors (their liquidation value being important). The Cameroon government should therefore help younger entrepreneurs in launching and developing start-ups by tutoring their projects and assisting them in obtaining financial means for their projects.

Table 2.2 Descriptive analysis of variables in percentages

Variables		Micro (75.29)	Small (18.84)	Medium (5.19)	Total
Entrepreneur's characteristics					
Sex	0 = Female	89.04	9.31	1.53	28.65
	1 = Male	81.31	13.73	4.15	59.16
Age	1 = 30 years or less	89.78	8.92	1.26	19.39
	2 = 30–39	87.62	10.32	1.87	29.86
	3 = 40–49	81.94	13.92	3.73	19.72
	4 = 50–59	76.70	16.43	5.89	8.53
	5 = beyond 60	75.83	17.67	5.10	3.16
Level of study	1 = Without any certificate	56.19	33.15	9.43	29.67
	2 = CEP	90.95	8.14	0.84	25.22
	3 = BEPC	88.26	10.12	1.46	16.20
	4 = Probac	86.14	11.52	2.25	5.19
	5 = Bacc	80.39	15.98	3.32	10.21
	6 = BTS	74.48	16.76	7.95	2.5
	7 = License	66.55	23.51	9.01	3.93
	8 = Maitrise	55.55	23.93	16.74	1.77
	9 = DEA/master	43.78	33.39	18.32	3.32
Nationality	1 = Cameroon	75.70	18.67	5.11	91.89
	2 = CEMAC	81.15	11.46	5.73	0.48
	3 = Other Africa	88.74	10.17	0.95	5.60
	4 = Europe	15.74	26.82	30.32	0.39
	5 = Asia	30.64	52.60	13.01	0.39
	6 = Other	12.52	59.71	19.87	1.25
Training	0 = Without any training	34.76	48.76	14.59	18.94
	1 = Professional training	74.03	17.63	7.05	19.71
	2 = Apprenticeship	89.21	9.21	1.45	52.33
	3 = Continued training	82.04	14.47	3.07	9.02
Variables linked to triggering events for an entrepreneur					
Sector of activity	1 = Agriculture	42.35	21.18	24.71	0.19
	2 = Stock farming	59.71	7.91	11.51	0.16
	3 = Food industry	50.65	17.99	22.16	0.79
	4 = Non-food industry	86.65	6.64	5.30	12.44
	5 = Commerce	77.99	19.19	2.45	53.08
	6 = Transport	20.50	19.54	49.32	0.59
	7 = Bank insurance	72.24	19.84	7.60	30.59
	8 = Other services	13.48	66.65	17.41	2.16

(continued)

Table 2.2 (continued)

Variables		Micro (75.29)	Small (18.84)	Medium (5.19)	Total
Legal form	1 = IE	89.26	9.12	1.54	79.42
	2 = PLC	24.59	39.27	29.77	4.31
	3 = AS	11.11	19.95	37.62	0.85
	4 = Other	20.82	63.08	15.30	15.42
Region of origin of the entrepreneur	1 = Douala	67.92	22.77	7.97	37.08
	2 = Yaoundé	73.54	20.93	5.02	26.60
	3 = Adamawa	91.49	5.50	2.69	2.95
	4 = east	82.79	12.67	4.16	1.80
	5 = Extreme north	83.12	13.25	3.46	2.65
	6 = North	83.78	12.73	3.12	3.06
	7 = Northwest	89.33	8.33	2.10	6.92
	8 = West	77.59	19.61	2.57	9.04
	9 = South	89.70	7.53	2.60	2.58
	10 = Southwest	82.64	15.72	1.53	7.32
Variables linked to the SMME's networking capacity					
Social networking	0 = No	76.28	19.63	3.97	42.87
	1 = Yes	73.90	17.78	6.81	57.13

Table 2.3 Model estimation of the Cobb–Douglas function

	Variables	Micro	Small	Medium
	logVA	Coef.	Coef.	Coef.
Standard production factors	logCPTL	0.8274*** (0.0134)	0.26236*** (0.0401)	0.34374*** (0.0741)
	logTRVL	0.1922*** (0.0170)	0.30076*** (0.0274)	0.7425*** (0.0444)
Sex of the entrepreneur	SEX	−0.050** (0.0206)	−0.04363 (0.0548)	0.25029 (0.1614)
Age of the entrepreneur	30 years or less	−0.05067 (0.0464)	0.05536 (0.0907)	0.25927 (0.3394)
	AGE30_39	−0.0246 (0.0446)	−0.08873 (0.0821)	−0.6403*** (0.2016)
	AGE40_49	0.03395 (0.0456)	−0.03324 (0.0801)	−0.4498*** (0.1623)
	AGE50_59	0.02525 (0.0501)	0.07001 (0.0872)	−0.4316*** (0.16467)
	Beyond 60	−0.05545 (0.0616)	−0.04262 (0.1127)	−0.4682** (0.2377)

(continued)

Table 2.3 (continued)

	Variables	Micro	Small	Medium
	logVA	Coef.	Coef.	Coef.
Training	PROF_TRAINING	0.05128 (0.0370)	0.15337** (0.0729)	0.06666 (0.1830)
	APPRENTICE	0.02342 (0.0332)	−0.0436 (0.0682)	0.02439 (0.2089)
	NO_TRAINING	0.2314*** (0.0461)	0.10460 (0.0876)	−0.05701 (0.2329)
Level of study	CEP	0.00221 (0.0286)	0.05816 (0.0795)	−0.186655 (0.2917)
	BEPC	0.0808*** (0.0307)	0.07462 (0.0818)	−0.13022 (0.2644)
	PROBAC	−0.04243 (0.0453)	0.22012 (0.1149)	−0.56287 (0.3648)
	BAC	−0.0073 (0.0372)	0.03408 (0.0834)	0.16030 (0.2388)
	BTS	0.02891 (0.0682)	−0.00342 (0.1301)	0.08687 (0.2899)
	LICENSE	0.00432 (0.0076)	0.02196 (0.0140)	−0.02977 (0.0337)
	MAITRISE	0.05313 (0.0821)	0.04163 (0.1261)	0.047557 (0.2527)
	DEA/MASTER	0.05829 (0.0751)	0.27298*** (0.1054)	0.32966* (0.2015)
Country of origin	CAMEROON	−0.46424** (0.2012)	0.21796 (0.1546)	−0.3079* (0.1837)
	CEMAC	−0.42427* (0.2324)	0.1865 (0.3271)	−0.25355 (0.5958)
	AUT_AFRICA	−0.4022** 0.2042)	0.39785** (0.1757)	−0.25995 (0.41645)
	EUROPE	−0.1072 (0.3545)	0.41417 (0.2788)	0.07752 (0.2778)
	ASIA	−0.26278 (0.3156)	0.20944 (0.2440)	−0.52960 (0.4614)
Legal form of the firm	IE	0.16198*** (0.0575)	0.28879*** (0.0886)	0.03996 (0.1884)
	PLC	0.21704** (0.0891)	0.37491*** (0.0962)	0.55371*** (0.1747)
	AS	0.18126 (0.2322)	0.85975*** (0.1831)	0.95636*** (0.2048)

(continued)

Table 2.3 (continued)

	Variables	Micro	Small	Medium
	logVA	Coef.	Coef.	Coef.
Sector of activity	Agriculture	0.0903 (0.3082)	0.29168 (0.4107)	−1.5003** (0.7102)
	Fishing	0.17622 (0.3218)	1.2682** (0.5522)	−0.84024 (0.7528)
	Food	0.55376*** (0.2063)	0.10504 (0.3090)	−0.6654 (0.6509)
	Electricity	0.30743* (0.1781)	0.26956 (0.2758)	−0.86318 (0.5883)
	Commerce	0.35689** (0.1767)	0.3331 (0.2668)	−0.42384 (0.5809)
	Transport	0.6238** (0.2721)	0.68568** (0.3132)	−0.39223 (0.6063)
	Bank	0.4061 (0.2719)	0.59559* (0.3132)	−0.01100 (0.6323)
	Other services	0.34609* (0.1771)	0.38019 (0.2688)	−1.0271 (0.5830)
Region of origin of the entrepreneur	Douala	−0.2244*** (0.0457)	−0.16246 (0.1766)	0.05820 (0.3059)
	Yaoundé	0.69023*** (0.0426)	0.7323*** (0.1730)	0.14693 (0.3141)
	East	−0.8560*** (0.0932)	−0.03422 (0.2866)	−0.50823 (0.6748)
	Extreme north	−0.3839*** (0.0546)	−1.061*** (0.2103)	−1.1155** (0.4560)
	North	0.40847*** (0.0522)	0.70413*** (0.1908)	0.40114 (0.4077)
	Northwest	−0.3596*** (0.0563)	−0.53309** (0.2254)	0.08241 (0.4214)
	West	0.75657*** (0.0456)	0.42910** (0.1883)	−0.78163** (0.3808)
	South	−0.14155 (0.2588)	−0.34089 (0.36045)	0.04555 (0.5438)
	Southwest	0.51076*** (0.0506)	0.62519*** (0.1831)	0.78898* (0.4403)
Social capital	Networks	0.24002*** (0.0199)	0.20795*** (0.0537)	0.65388** (0.2888)
Constant	Constant	−0.6509** (0.2863)	4.1501*** (0.5557)	3.9329*** (1.1587)
Number of observations		30638	4992	1346
R^2		0.2232	0.1285	0.3807
R^2 adjusted		0.2221	0.1206	0.3592
Fisher empirique		195.37	16.21	17.76
Prob > F		0.000	0.000	0.000
MSE		1.573	1.4418	1.6835

Note ***<0.01, **<0.05 %, *<0.1

2.4.2.2 Gender

In terms of gender, the sex of an entrepreneur negatively influences (statistically significant at 5 %) the performance of very small businesses. This result suggests that there is a gender-biased, heterogeneous distribution of entrepreneurial opportunities. This can at least partly explain the fact that in Cameroon only a few women are embarking on entrepreneurial careers. Even when they start their own businesses (often within the informal sectors), they have to deal with the local culture which posits that women should stay in their marital home. This result is consistent with earlier research proposing that societal expectations restrict women's entrepreneurial activities. In the context of Cameroon, the weak participation of women in entrepreneurship can be explained by a complex combination of reasons such as (frequent) maternity, lack of motivation (for example, as a result of societal expectations and pressure, as well as a lack of inspiring role models), and the absence of entrepreneurial training. All these hinder the creation of firms on the one side and the development of women's entrepreneurship on the other.

The negative performance impact of women can also be partly explained by the relationship that a female entrepreneur might have with other employees at the job which is linked to gender roles ascribed by society. As gender roles in Cameroon do not encourage women heading men, female leaders can make the (male) working environment hostile and sometimes aggressive toward them. This may even lead to a conscious sabotage of a firm's performance by some employees in order to get rid of a female manager. The Cameroon government has put in place different initiatives to encourage women to embark on entrepreneurial activities through entrepreneurial capacity-building training for different women's groups in urban and rural areas in various domains (agriculture, buying and selling, sewing, etc.). These types of initiatives should be extended to other activities given the high demand for entrepreneurial capacity building, but they also need to focus on changing the societal image of women as entrepreneurs, for example, by promoting successful women as inspiring role models. In addition, networking between women entrepreneurs should be encouraged to provide a platform for like-minded individuals and for reducing negative feelings such as envy between women.

2.4.2.3 Training Perspective

Reflecting the cognitive bases of entrepreneurs, training acts just like other idiosyncrasies on their perceptions and interpretations of the situations that they face. Our study shows that vocational training has a positive influence on the performance of SMMEs. This positive effect is statistically significant at a 1 % threshold for small businesses. Vocational training, while determining career opportunities and the mileage of entrepreneurs, allows business value creation and managerial rents. This type of technical and vocational education allows acquiring immediate employable skills in the labor market. Considering that the Cameroonian education system allows continuous and vocational training, it is likely that entrepreneurs with training are more pragmatic and take better decisions than those who were not able to follow the same kind of training. That is, a vocational college promotes better business performance than continued training. Although it is not possible to prove a causal relationship in this study, training seems to be an accelerator in performance as confirmed by the new education system in Cameroon (LMD system). The influence of entrepreneurs' vocational training appears to be a source of competitive advantage, mainly residing in the managerial human capital as scarce resource, which is imperfectly imitable by competitors. In effect, this reflects the new orientation being followed by Cameroon's higher institutions with the LMD system, focusing more on training (professional) and lowering the place occupied by general training. In fact, the latter favored unemployment and unskilled employment. It is important to note that from 2000 onward, with a multiplication of professional training schools in engineering, Cameroon's education system is emphasizing the development of entrepreneurial characteristics and the intent of enterprise through focused programs and curricula. The new system develops entrepreneurial characteristics in learners and leads to an expression of enterprising intents. It also focuses on stimulating entrepreneurial skills (anticipation, creativity, strategic planning, and initiative to take charge). Our result is consistent with that of Castanias and Helfat (2001) according to whom the business performance of entrepreneurs who have professional training is higher than that of those with continued training. Thus, public and private training institutions should expand vocational training relating to the job market.

Learning in a work situation allows acquiring knowledge that plays a key role in managing new situations, but it has a nonsignificant positive effect on the performance of micro- and medium-sized enterprises and a nonsignificant negative effect on the performance of small firms. This nonsignificance justifies the ease of integration and accumulation of knowledge that entrepreneurs acquire informally. Entrepreneurs with no formal education have a positive influence (statistically significant at the 1 % level) on the performance of micro-firms. This result is justified by the fact that the micro-firm sector excels at socio-professional integration of young people animated by the spirit of enterprise, that is, becoming entrepreneurially active out of a necessity of being unemployed.

2.4.2.4 Education

The education levels of an entrepreneur play a key role in increasing a firm's productivity. The statistical nonsignificance of primary education in our results can be explained by the fact that entrepreneurs who have acquired basic knowledge only (that is, reading, writing and counting) lack the ability to adapt easily to changes related to a restless socioeconomic environment and this is a major handicap for the productivity of their businesses. This low level of education might be one of the main reasons for bad management (or inexperienced management) of owner-managers and bankruptcy of (small) businesses in Cameroon. Entrepreneurs with higher levels of education (of the second cycle) positively influence (statistically significant at the 1 % for small and 10 % for medium-sized firms) firms' performance. This is because the higher education system provides training of the mind that makes adopting knowledge and new technologies easier, which are sources of productivity growth. Study levels of entrepreneurs are thus a factor of persistent entrepreneurial logic that maintains an individual in a process of creative change.

Entrepreneurs are becoming more educated. The Cameroon National Employment Fund (NEF) directs most of its funding to projects headed by entrepreneurs having at least Advance Level Certificate of Education (GCE A level). Among different eligible criteria, an entrepreneur searching for funds to start or enhance his/her business must present concrete entrepreneurial skills or present an advanced level of education to enter the Graduate Employment Program or the Micro-Enterprise Sponsorship Program (NEF Promote Expo leaflet 2014). This points out the importance of education among an entrepreneur's characteristics in Cameroon's context.

2.4.2.5 Social Networking

Concerning social networking abilities, a Cameroonian entrepreneur's entry into a business group positively influences (significant at the 1 % for micro- and small-, and 5 % for medium-sized firms) the performance of SMMEs. This strong statistical significance is explained by the fact that social networks are a valuable resource for doing business. These networks facilitate economic action and allow entrepreneurs to expand their scope, to save resources, and to access exclusive resources and opportunities. By his/her social capital, an entrepreneur leverages financial resources (such as cash and credit lines) and human resources (such as skills, legitimacy, experience, and know-how) to the business. Through contacts with friends, colleagues, and customers, opportunities emerge to transform network resources into better performance. This result confirms the central proposition of the theory of social capital which stipulates that social networks facilitate economic action (Aldrich and Davis 2000; Burt 1992; Nahapiet and Ghoshal 1998). Thus, in addition to established institutional networks (such as the Chamber of Commerce and Industry, Chamber of Trades and Crafts, and trade unions), a Cameroonian entrepreneur can turn to various firm support networks (GICAM, ECAM, GIC, etc.) to benefit from the externalities provided by government supported structures or develop any type of network ties capable of allowing him/her to transform resources (human, financial, information, advice, etc.) into profit. Also, maintaining good relations with public authorities in Cameroon can promote businesses in the sense that they can ease access to bank credits, position the business in a lower tax regime, and allow a firm to access certain 'favors' through social influence. Similarly, joining an informal social group in Cameroon (based on ethnic solidarity or extension of family solidarity) plays a key role in the development of SMMEs, as this group could form a bulk of customers for a company and provide a labor source for the owner of a small business.

2.4.2.6 Nationality

The nationality of an entrepreneur does not seem to influence his/her behavior to any great degree because a majority of the firms headed by expatriates are multinationals or subsidiaries of international companies. Regarding sectors of activity, the commercial sector and the transport and services sectors have a positive influence (statistically significant at the 1 and 5 % levels) on the performance of micro- and small enterprises. In these profitable and growing industries, the performance of SMMEs in Cameroon tends to increase.

2.5 Conclusions

This chapter set out to map entrepreneurial characteristics and performance of SMMEs in Cameroon. An entrepreneur's characteristics as presented in literature are an important factor in performance to the extent that creating a firm requires a coherent management of various parameters. Also, an entrepreneur is at the origin of the idea of creation. Our study sought to demonstrate empirically the relationship between entrepreneurial characteristics and performances of SMMEs. The performance of these companies depends not only on their strategies or the quality of their products, but also on the characteristics of entrepreneurs. Some of the other factors which influence an entrepreneur's performance in terms of major variables and dimensions include his/her professional training, level of education, sex, age, a strategic partnership-oriented approach, and knowledge of the business environment. These features require access to rich information, to sufficient funding, and to ICT skills and the ability of entrepreneurs to seize the opportunities necessary for better functioning of their businesses.

Existing literature lacks research on the role that the characteristics of an entrepreneur play in Cameroon, while Cameroonian SMMEs are facing intense competition in the both local and international markets. This chapter aimed to fill this gap in research. To increase the robustness of our mapping of entrepreneurial characteristics, they were measured with indicators recommended by Cooper (1982). Our econometric results confirm that in Cameroon if an entrepreneur belongs to a social network, it influences his/her performance in that it facilitates economic action and enables entrepreneurs to expand their scope, save their means, and access exclusive resources and opportunities. An entrepreneur brings financial resources (cash, credit lines) and human resources (skills, charisma and intelligence, skills acquired through experience, and education) to his/her business and leverages network links for further access to resources. In addition, the training followed by an entrepreneur strongly influences his/her firm's performance in that it provides career opportunities. The type of course of study that an entrepreneur has done leads to the creation of business values and managerial rents. This permits an entrepreneur to acquire skills that are immediately employable in the labor market. Entrepreneurs with professional training are more pragmatic and take better decisions than those who have not been able to follow the same training path. Thus, public and private training institutions should expand vocational training related to the job market. Such orientation is currently being taken up by Cameroonian higher institutions with the LMD system, focusing more on professional training and lowering the place occupied by general training.

An entrepreneur's nationality does not seem to influence his/her behavior, but age appears to have an effect on performance. Contrary to prior research, we find that the higher age of a Cameroonian entrepreneur (over 30 years) adversely affects the performance of his/her firm. Older entrepreneurs are altruistic, take decisions alone, and make excessive private withdrawals, which could be detrimental to a firm's performance. Thus, there should be more stimuli for younger entrepreneurs to create firms and also be more involved in their performance. Most young entrepreneurs are highly skilled, well trained (most of them have a degree), easily integrate ICT in their daily practices, and are oriented toward innovation. But many of them have difficulties in obtaining funds from creditors to launch their start-ups given market uncertainties and their lack of legitimacy. This is due to their inexperience and a lack of tangible assets that could serve as safeguards in the eyes of creditors (their liquidation value being important) and facilitate SMMEs' access to bank credit. Thus, the Cameroon government should help younger entrepreneurs in start-ups and venture development by tutoring their projects and assisting them in obtaining financial means for their projects. This is being done by the National Employment Fund through the Integrated Information Center for Youth Entrepreneurship and its 12 programs integrated in the Pact for Youth Employment (PYE). But these steps are very limited when taking into account the high demand for training and orientation in job creation and entrepreneurship. More efforts should be made and youth-oriented policies formed in order to reach a large number of potential entrepreneurs.

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Chapter 3
Crowdfunding in the African Context: A New Way to Fund Ventures

Adele Berndt

Abstract Attracting funding for developing a venture is a challenge that is often faced by entrepreneurs, especially with the difficulties experienced with traditional forms of financing. An alternative funding form is through the use of crowdfunding which involves the contribution of the public to the venture using a crowdfunding platform to present the call. Despite challenges associated with it, crowdfunding has potential for assisting entrepreneurs within the African context. This chapter outlines how crowdfunding works and provides examples of current African crowdfunding platforms.

Keywords African crowdfunding platforms · FundFind · Jumpstarter · M-Changa · SlizeBiz · Startcrunch · Startme · Thundafund · YBike · Honest Chocolate · Les Mielleries · Challenges

3.1 Introduction

Imagine New York without the Statue of Liberty. However, what it not very well known is that this landmark is a result of an entrepreneurial effort that made use of early versions of crowdfunding for its successful completion. The Statue of Liberty was donated by the French people to the people of America, but there was no money to build a pedestal for it. To raise this money, Joseph Pulitzer used his newspaper, *New York World* to raise US$ 100,000 that was needed. Approximately 125,000 people donated to the campaign, with the average donation being US$ 1 (National Park Service 2015). Another example is the Pebble Smartwatch which aims to combine a mobile phone with a watch, giving the wearer the ability to check mail and carry out any task necessary through various applications (apps) that can be downloaded. The founders used a crowdfunding platform to raise the capital that they needed and they raised it within 28 h (Massolution 2013). They were able to raise US$ 20 million (Chang 2015), which amounts to US$ 715,000 per hour.

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How does crowdfunding work? Why did people invest money in this concept? The answers to these questions are important as they provide clues as to how crowdfunding can be successfully used in other contexts, specifically in the African context.

Any entrepreneurial (or social) venture like the Pebble Smartwatch requires financing. This financing may be needed, for example, to develop a prototype or the actual product or to grow the business so as to move into new business areas or markets. A challenge that the entrepreneur has to face in this situation is attracting the necessary funding. While the contribution of family and friends, also known as love or even fool's money, is important in funding a start-up, a stage is reached where this amount is no longer adequate and a search for additional funds begins. It is here that an entrepreneur will consider approaching venture capitalists or the traditional banking sector, as they are known sources of capital. However, after the global financial crisis of 2008, banks have become more conservative in their lending strategies. Success levels of funding applications with traditional funding sources have declined, meaning that the ability to attract venture capital has decreased. Consequently, fewer entrepreneurs have received financing, which has affected the development of ventures (The World Bank 2013). The implication of this for an entrepreneur is that despite having an attractive entrepreneurial venture, the banks are unwilling to provide financing. The entrepreneur is then faced with a problem and he asks: Where can I go to get money for my business to grow? One alternative source of funding that can be considered is crowdfunding.

Though crowdfunding has been seen as a developed market phenomenon which is mainly used in the USA and UK, a suggestion has also been made that developing economies will be able to use crowdfunding to develop entrepreneurial ventures (Coetzee 2013). It will also be possible to adapt crowdfunding operations to suit the African context. How these developing economies use the opportunity presented by crowdfunding can impact the development of entrepreneurship. The use of crowdfunding can also contribute to economic growth, employment, and additional growth opportunities in other industries.

The purpose of this chapter is to investigate crowdfunding as it appears currently in Africa while also investigating the potential for this form of peer involvement in supporting ventures on the African continent. The chapter initially investigates the crowdfunding phenomenon and then examines the specific platforms that are currently operating in Africa. Following this, cases of successful use of crowdfunding are presented. The chapter concludes with a discussion on some of the challenges for crowdfunding in Africa.

3.2 The Nature of Crowdfunding

Crowdfunding is a term that is used to describe the contribution of financial resources by a group of people, that is, 'the crowd,' to assist in the development of a venture or to support a particular cause. Harms (2007, p. 8) defines crowdfunding as, 'a group of consumers that join forces (financial resources) together to make a specific project happen.' Through the use of crowdfunding platforms on the Internet, entrepreneurs can attract the attention of individuals from around the world who can contribute to their venture. It is estimated that US$ 10 billion was raised through crowdfunding campaigns in 2014 and that this figure may increase to US$ 34 billion in 2015 (Emmerson 2015). In addition to the earlier examples, there are countless others of ventures and projects that have been funded through crowdfunding, with technology and artistic ventures being some of the most popular innovations that are funded using this method. There are various types of crowdfunding, and what the investor gets in return depends on the type of crowdfunding that he or she uses. What makes crowdfunding unique is that it gives an entrepreneur the opportunity to interact directly with potential investors and customers and illustrate the benefits not only of the product (or service) but also of the organization. It enables an entrepreneur to reach a wider group of people who cannot only invest in the business but also become its customers.

It can be argued that crowdfunding, where individuals invest in the businesses of others, is a modern take on credit associations and other forms of microfinancing. Previously lending took place, and it still continues, on an informal basis between entrepreneurs and groups, or savings communities who lent money. Many individuals in communities around the world take part in Rotating Savings and Credit Associations (ROSCAs), and this is also true in Africa where participation in these funds is high (Gugerty 2007). Individuals are invited to be a part of this society and contribute money every month. They contribute the money into a communal fund and the amount that is collected is distributed either to individuals or invested on their behalf. These lending associations (or groups) are known by many different names including stokvels (South Africa), mabati (Kenya), and ekub (Ethiopia). ROSCAs invest money in various institutions and funds, depending on their profile. Thus, they play a role in encouraging ventures. Dividends, or the revenues earned, are distributed among ROSCA members.

3.2.1 Various Types of Crowdfunding

Willingness to contribute to a venture or project is more than just giving. There are a number of other factors that need to be taken into account. Research suggests four main categories of crowdfunding, as summarized in Table 3.1 (De Buysere et al. 2012; Giudici et al. 2012; Massolution 2013), with a fifth category of royalty-based crowdfunding also emerging (Massolution 2013). These categories vary with regard to the level of risk associated as well as their complexity and the type of returns available (Table 3.1). Equity crowdfunding is the most complex (Testoni 2014) while donation- and reward-based crowdfunding have the highest levels of support.

Table 3.1 Categories of crowdfunding and their associated returns

Type of crowdfunding	Nature of the return
Investor-based (or equity-based) crowdfunding	Equity in the organization and dividends based on ownership sold by an entrepreneur
Humanitarian- or donation-based crowdfunding	Attracts investors who, for example, would like to see a certain product reach the market and who are thus willing to give up some of their own money to see that happen. This is done without expecting any return on the money that has been donated
Lending-/debt-based crowdfunding	Attracts those who prefer a credit contract that is repaid with interest at the end of a specific period
Reward-based crowdfunding	The investor gets some types of reward such as preordering privileges or limited edition products or a 'digital hug.' The size of the reward differs with the amount invested
Royalty-based crowdfunding	Involves the crowd investing in campaign owners instead of a typical project and they receive a share of the revenue

Source Adapted from Mollick (2014), Testoni (2014)

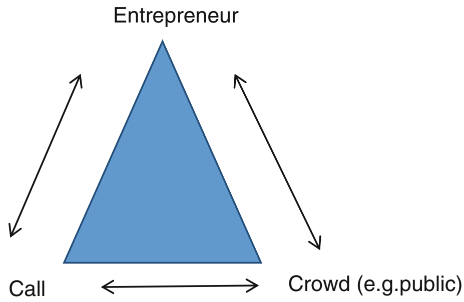
3.2.2 Components of Crowdfunding

Crowdfunding has three main components. The first is an *entrepreneur or fund-raiser* who initiates a project and the second is the *call* which is distributed through a crowdfunding platform on the Internet. The third component is the *crowd* which refers to any individual or member of the public who is interested in the venture. The interrelationships between these components are given in Fig. 3.1.

3.2.2.1 An Entrepreneur and the Venture

An entrepreneur is a person who develops a product idea and whose entrepreneurial idea needs financial support. The question can be asked why an entrepreneur would make use of crowdfunding to raise funds for a project. The reasons why entrepreneurs use crowdfunding include for raising the required funds, attracting public attention to the venture and receiving feedback on the product (Belleflamme et al. 2011). Crowdfunding takes place in a very public space, through the Internet, which

Fig. 3.1 Components of crowdfunding



enables increasing awareness about the venture. Building relationships with investors and replicating the success of other entrepreneurs have been identified by Gerber and Hui (2013) as further reasons for launching a crowdfunding campaign. The success of previous campaigns also encourages entrepreneurs to make use of this method of funding.

Critical to crowdfunding's success is the nature of the venture and the way in which the money will be used. The venture needs to be something that potential contributors can understand and in which they see some potential. Current trends suggest that technology and design ventures are particularly successful at attracting funding from a crowd. As the call is made through the use of Web2.0, an entrepreneur needs a social network which can be used along with using social media (such as Facebook and Twitter) to communicate about the venture and attract attention and investments to it. An entrepreneur needs to present the venture in a way that appeals to a viewer (or reader) which is why many crowdfunding platforms encourage the use of videos and not just written text. A video assists an entrepreneur in connecting with a viewer and explaining the product in more detail.

3.2.2.2 The Call

The call, which takes place through the use of the Internet and social networks, enables a diverse group of people to provide financial resources. The call is placed on a crowdfunding platform (such as Kickstarter.com, indigogo.com, or Fundedbyme.com) where visitors to the site can gather information about the project and decide whether or not they will invest in it. Details about the venture are provided in the call and the types of returns on investments, for example, profit, dividends, or rewards, are specified. Many popular examples of crowdfunding cited in the press refer to ventures on these platforms, which tend to be donation or reward-based in nature. By contrast, ventures listed on FundedByMe.com are equity-based crowdfunding ventures, which means that they attract different types of investors. The platform facilitates the meeting of initiators and investors, making them crucial to the success of a venture.

Crowdfunding platforms provide an opportunity for entrepreneurs to launch different types of ventures. The most supported ventures tend to be artistic (creative) projects that have a number of members such as dance groups consisting of 15–20 members. Research has identified that the first 10–100 investors are usually family and friends of the people involved in the project, meaning that these groups have a larger sphere of influence, thereby increasing the likelihood of funding success (Agrawal et al. 2011).

There are various ways in which platforms provide funding to a venture. A majority of the platforms operate on an 'all-or-nothing' basis. This means that should the initiator not achieve his funding goals, no money is paid over. There is also no cost for launching a project on platforms. If the funding goal is reached, a fee of, for example, 7 % is levied. If the entrepreneur does not reach the funding goal, the size of the fee depends on whether he has a flexible or fixed funding arrangement with the platform, where the fee can range between 0 and 9 % of what was raised.

A number of crowdfunding platforms exist in Africa that can be used for African ventures and projects including StartCrunch in Nigeria, M-Changa in Kenya, and SlizeBiz in Ghana (Coetzee 2013) as well as Thundafund in South Africa. These are discussed later in the chapter.

Those involved in crowdfunding platforms suggest that there are a number of factors that make a call more likely to succeed (Barnett 2014; Entis 2014). These include as follows:

- A clear pitch that has a distinct target audience that attracts attention and engages with it in a way that results in contributions to the venture. One way could be to tell the story of how the venture started.
- Highlighting the returns or rewards that are on offer to contributors.
- Involving family and friends at the launch of the venture.
- If well-known people (notable investors) have evaluated the product or have other connections to the product, these connections can create a bridge to the audience and provide more credibility to it.
- Marketing of the campaign to ensure that as many as possible are aware of the venture and are encouraged to donate. If the average contribution is US$ 25, this provides an indication of how many contributors are required.
- Being transparent on how the money will be used is important for contributors. With crowdfunding based on trust, entrepreneurs need to provide assurances that the money will be used wisely. This also enables contributors to decide whether or not they will contribute.
- Following-up investments with those who have contributed and continuously communicating about the project and its progress to them.

How successful are the various campaigns? Startme.co.za indicates its success rate at 10 % while it is reported that the larger funds have success rates ranging between 5 and 70 % (Page 2015).

The question can be asked about the life cycle of a crowdfunding venture. How does the venture get the money needed for it to be regarded as successful? When launching a campaign, an entrepreneur has to decide for how long he will wait to receive investments (and support) from the public. Most campaigns run for between 30 and 45 days, though some are open for longer. The rate of investment in a venture varies. Investors tend to support a venture at the beginning and the end, the so-called bathtub effect. The reason for this is that there is a great deal of marketing and promotion when a new venture is launched, both from the platform and from the entrepreneur. Toward the end of the venture, there is a drive to increase contributions to ensure that the venture reaches its goal, especially where an entrepreneur has decided to use an ‘all-or-nothing’ approach. There is also the issue of crowd behavior, where from the investment behavior of others, decisions are made whether or not to invest and when to invest (Burtch et al. 2013; Kuppuswamy and Bayus 2014). What thus happens is that a surge in interest in a venture sparks others to action (referred to as ‘herding’) (Bretschneider et al. 2014).

3.2.2.3 The Crowd

It is the crowd, that is, members of the public, who decides whether or not to support a specific entrepreneurial venture. There are various types of 'crowds' which invest to obtain different types of returns. Some may invest in order to acquire the product, gain a share of the organization or who wish to donate to a specific good cause, or to generate a return on investment (ROI) (Ordanini et al. 2011) (also see Table 3.1).

But why do people support a crowdfunding venture? What are their motivations? Research suggests that the reason why members of the public donate is related to a personal connection between the fundraiser and themselves and also because of the communication that takes place between them (Gerber and Hui 2013). Knowing the entrepreneur is a major reason for supporting a project, which can also be associated with additional knowledge about the project. Other reasons have been suggested, including the altruism of an investor (Bretschneider et al. 2014; Gerber and Hui 2013). Altruism is a person's desire to help others and by becoming involved in crowdfunding, a person is able to help others achieve their dreams; these people can also be located in another country. A fundraiser may be working for a cause that is important to a person, hence the reason to give money. Further, the desire to belong to a community also serves as a reason to invest in a crowdfunding venture (Gerber and Hui 2013). A crowdfunding platform serves as a type of community, and investing with others in a venture can result in the creation of a 'family.'

These different reasons for becoming involved in crowdfunding means that there are specific markets or groups of people who are involved in supporting crowdfunding ventures, namely the public and angel investors (or business angels).

3.2.2.4 The Public

There is potentially no limit on who can invest in a crowdfunding campaign. Support is not limited to individual investors, but can also be given by groups of investors who have formed an association or company to invest in a venture. Support does not only have to be financial, but entrepreneurs also rely on the crowd to spread information about the venture (word-of-mouth), thus providing support as ambassadors. It is also important to differentiate between the role of the public in various types of crowdfunding. In the case of donation or reward crowdfunding, the public is very important as it is their contributions and their word-of-mouth marketing as promoters of a project that can help in reaching the venture's goals. In this type of crowdfunding, there is little expectation of any returns other than what is promised by the fundraiser and a 'warm feeling' (altruism) of having helped another person achieve one of his goals. Money can also be donated for the 'fun' of being associated with a certain cause or being an acquaintance of the people involved in the venture. It is estimated that donation crowdfunding attracts an average contribution of US$ 25 (Page 2015).

However, in the case of equity crowdfunding, financial knowledge and expertise of investors are important. The public has varying degrees of financial sophistication and knowledge and this has the potential to impact the outcome of a crowdfunding effort. Here, the public may invest without clearly understanding the financial statements and be surprised or disappointed when their investments do not yield any return or if they lose their money. It is also possible that there is a perceived fraud in crowdfunding when there are delays in the delivery of promised products and this has the potential to impact the future of crowdfunding (Cornell and Luzar 2014).

3.2.2.5 Business Angels (Angel Investors)

In other instances, the crowd could be professional investors such as business angels. Business angels are high net-wealth individuals who invest their personal funds into business ventures and can play an important role in providing funding for smaller ventures (Landström 1993; Mason and Harrison 1996; Prowse 1998). They also tend to be financially very literate and experienced in financing projects and have different expectations from them. Many business angels become involved in the management aspects of a venture.

3.3 The Regional Nature of Crowdfunding

Crowdfunding can be adapted in a regional context to take regional challenges into account. Ventures can also be focused on solving regional issues, for example, power shortages are experienced in parts of Africa, making ventures that provide solutions to the situation particularly attractive for those who live in an affected region.

Investors can be attracted from a worldwide base (not just from a local community), and this is possible through crowdfunding platforms. A study by Agrawal et al. (2011) found that the distance between artists and investors in a creative project was 3,000 miles, thereby removing the impact of geographic distances on entrepreneurial funding. This makes the quality of the project more important than the location of the investor as angel investors are willing to invest in ventures that yield adequate returns. For example, Jacques Georges Badjang financed his honey business in Cameroon through a French-based platform (Martineau 2014).

There are a number of well-known platforms such as Kickstarter, Indigogo, and Crowdcube which are focused on US and British investors. There are also platforms that are based in Europe (or the USA) which are focused on investing in ventures in developing economies. Examples include BlueBees, Babyloan, and Fadev (Fonds pour le développement Afrique). There are crowdfunding platforms that are based in Africa and are located throughout the continent which argue that they are in touch with the needs of those wanting to develop ventures in specific countries

(Bruk 2015). There are many similarities among the established platforms but they also face some challenges.

3.4 African Platforms

Crowdfunding platforms have been developed that focus on entrepreneurs active in Africa. The number of platforms, together with a focus on technology and commitments of governments to technology and economic development, emphasizes the need of using crowdfunding platforms successfully. A platform is the Web site or application that is used to attract ventures and potential investors. A platform is critical to the success of crowdfunding as it makes it easier for various parties to connect. A platform can also be involved in assisting an entrepreneur to present the idea well while also providing entrepreneurial support for the venture. In Africa, support for entrepreneurs is important to guide them through the crowdfunding process and so increase their possibilities of success. While Kickstarter is very successful in the US and UK markets, an opinion has been expressed that it does not really work in South Africa and perhaps also not in other parts of Africa (Page 2015). Thus, it is necessary to investigate the various platforms that operate within the African context. Previous research has emphasized the importance of an entrepreneur's social networks in the success of such a venture, and the use of social networks in this context also requires investigation (Agrawal et al. 2011). This is especially the case where there are Africa-specific social networks which can be used to the advantage of a crowdfunding campaign (such as Mxit).

3.4.1 FundFind

FundFind is a South African platform that funds ventures by offering those investing a reward (or a choice of three reward levels). Investments can be made over a 90-day period, but the platform recommends a 30–60-day duration. A fundraiser can select either the 'all-or-nothing' or the 'keep-what-you-raise' approach for the venture and there is no limit on the types of ventures that are put on the site (apart from illegal and immoral ones). The platform charges a fee for using the platform—either 5 % (all-or-nothing ventures) or 9 % (keep-what-you-raise ventures). Payments are made through Internet bank transfers as well as through credit cards. Funds have successfully been invested in two creative ventures (albums of Shyne and the Amy Larter Band), donations to an individual for a teaching internship and three medical ventures (including cancer treatment and medical equipment for a child). No indication of the number of unsuccessful ventures could be determined (as of 1 December 2015, http://www.fundfind.co.za/explore/successful).

3.4.2 Jumpstarter

This South African platform has provided support to 21 campaigns (as of December 2015), having raised ZAR80,250 (€4,700). Campaigns can be listed in a variety of areas (as on the other platforms). Till July 2015, four ventures had been listed on the platform and no mention was made of commissions that are payable to the platform, or details on the functioning of the platform.

3.4.3 M-Changa

Harambee is on the coat of arms of Kenya and is used as the motto. It means 'pulling together' (or fundraising) in Swahili and describes how individuals work together to raise funds or work on community ventures. M-Changa is defined as a 'fundraiser management platform' that creates opportunities for fundraising through the use of mobile technology (http://www.changa.co.ke/about/). Fundraisers open a fundraising account which is then listed on the venture page. Donors can view all the fundraising options on the Web site and donate by using a mobile phone account or through PayPal (for international donors). A fundraiser can only have one active fundraising effort at a time, and withdrawals are possible once the balance exceeds KES250 (€2.5). M-Changa charges a 5 % commission based on the amount raised and a KES40 (€0.4) handling fee on PayPal deposits. There is also a service fee that is charged when a fundraiser withdraws funds from the account (4.25 % of the total amount collected + normal network charges). A fundraiser also gets free SMSs that can be sent to supporters and contributors. Viewing the list of fundraising ventures that are listed on the Web site, it can be observed that they are mostly linked to education, social causes, and medical situations. Educational causes focus on providing books and facilities. Social causes provide opportunities to donate to sports and creative ventures as well as for children and animal care. In the case of medical causes, parties require financial support for treatment. A limited number of ventures are specific. The fundraisers do not mention any returns provided to those donating to a specific cause. One specific venture that is seeking funds does not specify any information about the reason for needing the money, or how the money will be used. Based on this information, it appears that while this site provides an opportunity for entrepreneurs to raise funds, its focus is on social causes.

3.4.4 SlizeBiz

This platform is based in Accra, Ghana, and focuses on supporting ventures in Africa. The focus of the platform is to fund innovations using both angel investors and investors based in Africa (http://slicebiz.com/#about-us). The Web site does not provide any other information and no ventures are listed in which investors can invest (as of 12 December 2015). According to the Web site, the launch was scheduled for March 2014 in NYC, but no details on a new launch date are provided.

3.4.5 Startcrunch

Registered in Nigeria and the USA, this reward-based platform approves projects that appear on the platform, though no projects were listed on their Web site as of July 2015. This seems to suggest that several platforms are in the process of becoming active, but are experiencing delays.

3.4.6 Startme.Co.Za

Based in South Africa, startme.co.za has 25 entrepreneurial ventures listed (as of December 12, 2015) (though some have exceeded their time allocation). PayPal or PayFast are used for investing. Various categories of crowdfunding ventures are offered to those interested in donating, including for community and medical causes.

3.4.7 Thundafund

Based in South Africa, this reward-based platform not only provides the public access to ventures but also provides mentorship to an entrepreneur. It operates on an all-or-nothing basis. Commission is paid to Thundafund on the final amount by the venture (5 % for certified NGOs and 7 % for individuals and organizations). Ventures provide three milestones to donors, with the first milestone being the absolute minimum that is needed for the project to be implemented. Milestones 2 and 3 reflect the dreams of the venture should additional funding be acquired (https://www.thundafund.com/StaticPages/AboutProject.aspx).

There are various categories that are used for classifying various ventures. This means a donor (or investor) can select a category in which he would like to invest in. The category with the most ventures is the community category (43 projects as of December 2015). Other categories where there are ventures include Performance (such as dance and theater) (22 projects) and Art & Photography (20 ventures). An investor could also decide to support ventures based on where they are located. From a regional perspective, 146 ventures are located in the Western Cape, followed by Gauteng with 20 ventures (as of December 2015).

Various rewards can be selected for the donation made to a cause, ranging from a ‘virtual high five’ to products (chargers, t-shirts, and photobooks). It is also possible to buy a Thundafund gift card that can be given as a gift to another person, which allows him or her to donate to a cause of choice. It is estimated that by December 2014, Thundafund had raised €228,000 through the involvement of 4,000 investors (Jackson 2014). It is reported that expansion will take the form of developing a 'sister site' (Ripple) where community ventures will be offered while Thundafund will focus on technology and design ventures. Financing for this will be raised through the use of a British crowdfunding platform (Jackson 2014).

An examination of African funds shows a number of hindrances if an individual wants to contribute to a fund. One of these is the way in which payments are made. Payments require the use of a bank account and a debit or credit card, and this is problematic with many on the continent not having these tools. To counter this, some crowdfunding platforms make use of PayPal or similar services or provide the option of paying using a prepurchased voucher or gift certificate.

An examination of African platforms shows that *payment* is a real issue both for those wanting to contribute and for fundraisers who need to access funds that have been raised. Other issues relate to knowledge about crowdfunding among entrepreneurs as a growth option and access to platforms for those who wish to support a particular cause.

3.5 Cases of Successful Crowdfunding in Africa

A number of examples of successful crowdfunding ventures associated with different platforms can be identified; a few are presented here.

3.5.1 YBike

Something that every child wants to own is a bicycle. Learning to ride a bicycle is an important skill that children learn, but to do this, they require coordination and balance. Traditionally, these are learnt through learning to ride a bicycle with training wheels to assist with balance. YBike is a bicycle (bike) that not only meets this need, but a YBike also focuses on improving the developmental skills of children. YBike focuses on producing 'mobility products' that not only lead to fun but which also train critical developmental skills such as improving balance (http://ybike.co.za/about-us/). A YBike is defined as a balance bike that has no pedals, which assists in coordination, balance, and confidence. Once a child has learnt to ride a YBike, riding a normal bicycle is easier. YBike was started in 2007 by Jaco Kruger, and it has expanded to 40 countries and won numerous design awards. It was one of the first ventures that used Thundafund. The ultimate goal is to raise ZAR200,000 (€13,000), with an initial goal of ZAR30,000 (€1,700) and an intermediate target of ZAR1000,000 (€6,500). In the campaign, ZAR49,000 (€3,200) was raised, meaning that it exceeded its initial target (Carstens 2013). The reasons for using a crowdfunding platform included targeting potential consumers who were interested in the product while also building a fan base. YBike designers also needed funding to build the product, and crowdfunding allowed for this. Kruger describes crowdfunding as an 'out-of-the-box approach to financing.' The popularity of crowdfunding internationally encouraged YBike to use it to raise capital. YBike is on sale in toy stores such as Toys R Us, Amazon, and Costco at a price of approximately € 41 (US$ 45).

3.5.2 Honest Chocolate

Experimenting with raw cocoa is the basis of the business formed by two entrepreneurs in Cape Town. Anthony and Michael describe their business as an 'artisan chocolate company' and they describe themselves as chocophiles. They make chocolate using ecologically sourced cocoa from Ecuador using raw cocoa which means that the nutrients are not destroyed. This makes the chocolate better for you. The products are also free of additives and preservatives. The chocolates are produced and wrapped by hand. The Thundafund campaign was aimed to raise the money necessary to open the store. They started their campaign by testing their concept with family, friends, and existing customers. They also hosted a number of social events where the organization presented its products and concept. Once these groups had given their feedback, the campaign moved to the platform. The initial target (or tipping point) was ZAR50,000 (€3,250), which was reached as they raised ZAR 67,000 (€4,500) within 30 days. Further investments are still possible to attain goal 2 (of ZAR80,000–€5,200) and for reaching goal 3 (ZAR100,000–€6,500) (http://www.honestchocolate.co.za/honest-chocolate-story.html). Crowdfunding was selected as the entrepreneurs realized it provided an opportunity to market the business while attracting financing. They describe the process of crowdfunding as 'not easy,' as an entrepreneur has to retain an interest in the venture while also keeping people informed about it. For this reason, they made extensive use of social media (their Facebook page and Twitter), engaging an agency to assist in this process. They have opened their store in Cape Town and their products are also on sale in a number of stores in the city.

3.5.3 Les Mielleries

While at university, Jacques George Badjang, a Cameroonian entrepreneur and beekeeper, decided he could start a profitable business linked to honey. There were a number of beekeepers who lived in his neighborhood, so initially he bought honey from them and packaged it in glass bottles. Sales took place door-to-door. Today, not only does he manufacture his own honey, he also sources honey from 200 beekeepers and distributes it on their behalf. To fund this venture, he approached banks, but none would finance him as they were not convinced that he would be able to repay any loans (Martineau 2014). He discovered crowdfunding, specifically BlueBees, a crowdfunding site that specializes in agricultural-environmental ventures worldwide, including in developing countries (Martineau 2014). This Web site, based in France, had Badjang's venture as its first crowdfunding venture and it launched it in spring 2013. One hundred creditors invested in his business, making the expansion of the venture possible. These investors lent Badjang the €20,000 he needed and he repaid all the money within 6 months while also paying an interest of 10 % over the period.

From these cases, it becomes clear that crowdfunding has served a number of different functions besides providing financing such as brand and product awareness, rewards to loyal customers and market expansion. For example, Honest Chocolate communicated its crowdfunding campaign to its customers, encouraging them to share the message. Part of the rewards offered were its own products, which also attracted a new market for its range of organic chocolates.

3.6 Critical Success Factors and Challenges for Crowdfunding in the African Context

For crowdfunding to be a success in developing economies, not only are entrepreneurs and investors required, but there are also a number of systemic issues that need to be addressed. The issues that require attention in Africa include as follows:

- A regulatory environment which facilitates the development of technological innovations and investments in these innovations. This means that the regulations and laws need to reflect the changing conditions in the environment. This raises a number of issues, specifically in the case of equity crowdfunding where shares in an organization are sold. Selling these shares might not be a cost-effective option as an entrepreneur may have to change the form of ownership to allow for the inclusion of the new shareholders. For example, in South Africa, a private company may not sell shares to the general public. Selling shares in a crowdfunding venture will require changing to a public company (which has a minimum of seven shareholders), but which will mean incurring additional costs of administration and management. Facilitating the movement of funds from other countries is another regulatory issue that requires attention. For example, crowdfunding can attract funding from around the world. Laws need to allow for the movement of capital across borders while also taking corporate governance issues into account. A country may have restrictions on the amount of money that can be received from abroad, and the income be declared to the revenue authorities, which complicates the crowdfunding process. This relates to the role of the *government* in the development of crowdfunding and coming up with legislation and regulations associated with its use. Included is the question of legislation as it relates to the management of business forms (such as private and public companies) as well as protection of contributors from fraud. Governments in Africa (e.g., Rwanda and Tanzania) are committed to expanding Internet infrastructure to provide faster connectivity as well as electricity to make it possible to connect to the Internet.

- Access to the Internet and the use of social media to spread messages about various ventures. On the African continent, Internet World Stats suggests that 26.5 % of the people have access to the Internet (http://www.internetworldstats.com/stats1.htm) but that many gain access through their mobile phones (rather than through a computer). Table 3.2 shows some Internet and social media memberships as an indication of the potential of both crowdfunding and of using social media as a way to communicate with potential investors. It can be seen from the table that a relatively small percentage of the population uses Facebook as an example of one of the social media sites.
- The figures associated with social media are important as the success of crowdfunding is linked to the development of social media (Coetzee 2013). Due to the lower use of social media, some of the African platforms make use of SMS technology, enabling fundraisers to generate support in this way.

Access to the Internet through mobile phone technology has increased, but the use of apps can further increase the number of followers of investments.

- The use of other languages for investment platforms is also a factor for consideration, bearing in mind that not every investor is comfortable with using English or other European languages. It has been suggested that for 90 % Africans, language is a major barrier in their communication as they do not speak the official language of their country (Thicke 2012).
- An online marketplace is one that not only makes investments possible, but also educates those interested in investing in various ventures. Crowdfunding assumes that a contributor is literate in matters relating to business and investment, that the entrepreneur is skilled in communicating his message, and that he also has the necessary business skills. Thundafund has identified this as something that may not be true in the South African context, which is its reason for providing additional support in the process of crowdfunding through its

Table 3.2 Internet access in various African countries

Country	Population	Internet users	Penetration (% population)	Facebook (Dec 2012) (% of Internet users)
Egypt	86,895,099	46,200,000	53.2	12,173,540 (26.3 %)
Kenya	45,010,056	21,273,738	47.3	2,045,900 (9.6 %)
Nigeria	177,155,754	70,300,000	39.7	6,630,200 (9.4 %)
Rwanda	12,337,138	1,110,043	9.0	188,800 (17 %)
South Africa	48,375,645	24,909,854	51.5	6,269,600 (25.2 %)
Tanzania	49,639,138	7,590,794	15.3	705,460 (9.3 %)

Source http://www.internetworldstats.com/stats1.htm#africa platform. Investor education is also necessary so that those who invest money are clear as to what to expect from their investments (or donations).

- Collaboration with those involved in building entrepreneurship such as training and development agencies (The World Bank 2013).

Challenges associate with *infrastructure* too can be identified. Many countries in Africa are currently experiencing issues related to the shortage of electricity (e.g., Nigeria, Kenya, and South Africa). Not only does this affect an entrepreneur, but it also affects the platforms through the powering of the servers and contributors as they are not able to charge their electronic devices. Allied to this is the functioning of the Internet, specifically as it relates to the speed at which information can be accessed. Accessing a full Internet site may not always be possible, and this limits the extent to which individuals can become involved in campaigns as well as in showing support to those involved in crowdfunding campaigns.

Another challenge is associated with the increased potential of *fraud* and crime associated with crowdfunding. Trust is a key ingredient in the perpetuation of crowdfunding and anything that impacts the trust between parties will be detrimental. With an increase in the number of crowdfunding projects, the risk of fraud increases (Cornell and Luzar 2014). Fraud can take place before the launch of a campaign as well as during the campaign. However, fraud after the campaign is much more likely. There are examples where funds have been received, but they have not been used for the purpose for which they have been given. This has meant that the contributors have not received the products promised (or the money has not been repaid), which has made the crowd suspicious of other ventures. In one case in the USA, an entrepreneur used the funds to fund his lifestyle for a period instead of using them as promised on the call. The matter is currently in US courts.

3.6.1 Challenges for Crowdfunding and Platforms

Crowdfunding is *new*, and not well understood in Africa and people do not trust it as an investment option or trust it enough to donate to any of the causes that appear on the various sites (Schofield in Martineau 2014). Involvement in ventures tends to start at a localized level, which enables individuals to invest in local causes (Martineau 2014). While social lending is part of many African cultures, this way of financing may be viewed with suspicion by those who are not familiar with the concept and its operations. Not being personally acquainted with an entrepreneur may limit the willingness of a crowd to contribute to his venture.

The *level of expertise* needs to be developed and a venture needs to be presented in an attractive (and profitable) way; these do not always exist. This means that an entrepreneur may not have the skills to present the venture in a professional way that encourages investments. As mentioned earlier, having an attractive campaign is necessary if an entrepreneur is to attract enough contributors. The fund thus needs to provide guidance to entrepreneurs as to how to compile the call together by providing specific ways in which the likelihood of success can be increased. This also includes mentorship and entrepreneurial support for a venture if it is lacking (Martineau 2014).

How to make *payments* is another challenge that has to be addressed in the African context. The payment systems are not as sophisticated in Africa as they are in the other parts of the world. There are a number of issues that are critical:

- Sending money into Africa includes unique issues, specifically bank costs and bank transfers. In the case of many developed countries, use of Internet banking is possible, but this is not necessarily the case in less developed countries. If Internet banking is not available for all parties, other options have to be available.
- Some of the African platforms state that payments may only be accessed in a specific currency, requiring that an entrepreneur be located in that country or he should be able to use that currency. This may complicate payments from suppliers, or they may have to incur additional costs in transferring the funds.
- Not all have access to bank accounts as a large percentage of the continent is unbanked. This makes it virtually impossible for them to invest in a project. Use of mobile money has the potential to change this as does the use of payment systems such as Paypal. An example of this is seen in the payment systems that are used by M-Changa.

3.7 So What Next?

Even though there has been a growth in crowdfunding worldwide, its growth in Africa is by no means assured. Critical factors that can lead to its success require attention by various parties, including governments and regulatory authorities. Continual efforts are needed by all the parties involved to increase its success for entrepreneurs, contributors, and for the economies of Africa. Platform managers need to determine ways in which they can provide reassurances to all parties about security and continuing the marketing of crowdfunding as an investment activity by providing information on its functioning.

These issues provide an ideal research arena. The research agenda is not limited to one specific discipline or area but can be viewed from a multifaceted and an interdisciplinary perspective. As there has been little published research on crowdfunding and even less on the place and functioning of crowdfunding in developing economies, there is potential to carry out both qualitative and quantitative studies among entrepreneurs, the investing crowd, and business angels to find out about awareness, interest, and donations by these parties. Developing and analyzing cases in the African context can also help clarify key learnings for entrepreneurs. The platforms themselves also make an interesting study subject in determining their role in entrepreneurship; the success of ventures can also be investigated.

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Chapter 4
The Lack of Business Dispute Resolution in East Africa: An Unresolved Impediment to SME Development?

Malin Tillmar

Abstract Entrepreneurship and SME development are often seen as a route to increased employment and economic growth in developing countries in sub-Saharan Africa. Impediments such as lack of access to finance, the need for entrepreneurial attitudes, and training have been well explored as have been institutional constraints like corruption in the countries. This chapter explores the consequences of an institutional situation on SME development, focusing on the issue of business disputes and possibilities for their resolution. The chapter builds on 60 interviews with micro- and small-business owners in the urban centers of Kenya, Tanzania, and Uganda. The findings have implications for concrete business support activities as well as policymaking for entrepreneurship and development in different African countries.

Keywords Small and medium enterprises · Dispute · Trust · Institutions · Gender · Interorganizational relationships · East Africa

4.1 Introduction

In many ways, we are currently witnessing the rise of the African continent (Bjerström 2013; Rylander 2014). The gross domestic product (GDP) is skyrocketing in many countries. According to the latest figures from the World Bank (www.worldbank.org) in the large East African countries of Tanzania, Kenya, and Uganda, GDP growth in 2014 was 7, 5, and 4 percent, respectively. Hence, the purchasing power of the upper middle class is also increasing (Bjerström 2013; Rylander 2014). The region is regarded as an emerging market filled with unexplored business opportunities (The World Bank and the International Finance Corporation 2012). Economic opportunities on the continent are discussed in Western countries with increasing frequency (see, e.g., Swedish Radio, www.sr.se),

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which is gradually changing its view about Africa. The economies in the East African Community (EAC) have in the last few years also reformed their business regulations in order to make it easier to do business (The World Bank and the International Finance Corporation 2012). Yet there is still a question of how inclusive the growth will become and whether the economic development will trickle down to 'ordinary' people from the lower middle class, to the poorer part of the population, to rural areas and to women and children.

Obstacles for entrepreneurs in the African context[1] such as access to finance have been relatively well explored (Kibera and Kibera 1999). However, another major challenge is access to commercial justice. Entrepreneurship is hampered by fraud and fear of fraud. This makes entrepreneurship in the African context a risky business (Bowen 2001). This is less often discussed, but has been noted in a book by the World Bank, focusing on Tanzania (Ellis et al. 2007).

Formal institutions which could otherwise have safeguarded commercial rights, struggle due to lack of funds, and corruption. Previous research has shown that when formal institutions fail, and people still need to act, they depend on informal institutions and create alternative mechanisms which enable exchange and cooperation between business partners (Tillmar 2002). However, there is a reason to believe that these practices are also gendered (Ellis et al. 2007; Rwebangira 2000). The informal sector and the influence of family structures in the African context have been studied previously (Hydén 1983; Tripp 1997), but more knowledge is needed on this (cf. Omari 1999). More knowledge is also needed about the debated relationship between formal and indigenous institutions in the African context (Galbraith and Stiles 2006; Havnevik 2000a).[2] The plausibility of viewing gender as a process integrated with business ownership has been noted both in Western (Ahl 2004; Sundin and Holmquist 1989) and in developing contexts (Kikooma 2007; Snyder 2000). The knowledge gaps mentioned need to be closed in order to enable and support development of a broader spectrum of businesses. In this chapter, issues of business disputes and trust are discussed and the situation for male and female entrepreneurs in urban East Africa is compared. The chapter focuses on the following questions:

- How do men and women entrepreneurs handle fraud or other kinds of business conflicts?
- Which mechanisms of dispute resolution are perceived as available to urban SME owners in East Africa?
- What are the differences and similarities in this respect between men and women entrepreneurs, and between the three largest East African countries (Tanzania, Kenya, and Uganda)?

[1] In this text, I use the words entrepreneur, self-employed, and business owner interchangeably.

[2] See Moore (1997) for a lengthier discussion on the role of the state, the private sector and indigenous civil societies, and their role in development.

4.2 Methodology

This chapter reports from an extensive interview study with both female and male entrepreneurs, as well as business support organizations in Tanzania, Kenya, and Uganda.[3] The importance of different contexts and how they interact is at the center of the contributions of this project. It is my contention that previous studies have focused on microbusinesses in the informal 'jua kali'[4] (Pedersen 2001; Snyder 2000) sector but that less attention has been given to traders in the formal sector which has grown. Thus, this chapter focuses on businesses with 2–10 employees, primarily in trade and food-processing, where there are many local SMEs.

This research was inspired by an interactive research approach (Nielsen and Svensson 2006) and was conducted in collaboration with support organizations and local universities (particularly Makerere University Business School, University of Dar es Salaam, and Moi University). Since the research questions deal with sensitive and informal issues, a suitable research design was sought to build primarily on unstructured interviews and dialogues with entrepreneurs in combination with participant observations. The Tanzania Chamber of Commerce Industry and Agriculture (TCCIA) and its partner organization the Tanzania Women Chamber of Commerce (TWCC) in Tanzania, Enablis (a Canadian NGO) and Moi University in Kenya, and the Makerere University Business School (MUBS) in Uganda facilitated access to informants/interviewees by providing access to their networks. Dialogues with researchers at the University of Dar es Salaam (Tanzania) and the University of Nairobi (Kenya) also helped the project.

The border between the formal and the informal sector is not clear-cut (Lindell 2010), and to reach the primary target group, I had to search for those who claimed to have registered their businesses and had around 2–15 employees. Still, the reader should be aware that the number of employees is a relative measure and that there is also a question of who is formally and informally 'employed' (Lindell 2010). Due to the widespread practice of diversification, it was not possible to focus on one or just a few industries. I took my point of departure in food-processing businesses and extended the snowball method not only to the processing of natural products (cosmetics, fabric, batik printing, and jewelry making), but also to retailing, computer services, and consultancies. The interviewees in the project as a whole were spread along all social classes with the exception of the poorest so-called petty traders who would not have any employees.

In research on sensitive issues such as (dis)trust and disputes, building trust for the researcher has also proven to be successful (Möllering et al. 2012). In this process, the local partner organizations were helpful. When conducting the

[3]The larger study is titled, 'Gender perspectives on business conflicts in East Africa,' from which different results have been reported in a series of papers. As the papers build on the same methodology, they will have similar methodology texts.

[4]Jua kali is Kiswahili means 'hot sun' and is an expression used particularly in Kenya to denote 'petty trading' in markets and/or along the streets.

interviews, I was accompanied in all the three countries by local master students who assisted me in booking the interviews and guiding me around the towns. My ability to speak Kiswahili was an advantage for two main reasons. Firstly, being white creates a power distance with people in these contexts. Speaking the local language contributes greatly in reducing this distance and consequently in accessing richer information. Secondly, the loss of information which occurs through using an interpreter was avoided. Twelve interviews were conducted with women entrepreneurs in Dar es Salaam, Tanzania; 10 with people within the same category in Kampala, Uganda; and 12 in Nairobi and Eldoret, Kenya. In addition to these unstructured interviews with entrepreneurs, representatives from a number of support organizations were also interviewed: TCCIA, TWCC, Tanzania Women Lawyers Association (TAWLA), Small Industries Development Organization (SIDO), and Private Sector Development Fund (PSDF) in Tanzania and Uganda; Enablis in Tanzania and in Kenya; representatives from the universities of Dar es Salaam, Moi, Nairobi, and Makerere; and the Uganda Women Entrepreneurs Association Limited (UWEAL). The interviews were conducted during field trips from March 2012 to April 2014. Representatives from TCCIA, Enablis, Moi University, and Makerere University were key informants, who were interviewed regularly. As to the interaction with those active in the field, half-day interactive follow-up workshops at TCCIA in February 2013 and in October 2015 were conducted, and at Enablis, Tanzania, I made a keynote speech in order to give and receive feedback after the empirical studies.

4.3 Formal and Indigenous Institutions in East African Business Life

In order to understand the situation and facilitate change, we need to focus on the ‘rules of the game’ in a society (North 1990) and on the formal and informal institutional environment, rather than taking individualist approaches (Ahl 2006; Welter and Smallborne 2011). Institutions are various mechanisms which guide the behavior of people, not least as economic agents (cf. Havnevik and Hårsmar 1999; Eriksson Skoog 1998). Formal institutions take form as written constitutions and laws (Havnevik and Hårsmar 1999). Indigenous institutions reflect culture and tradition in civil society (Dia 1996) and are ‘organic institutions which evolve spontaneously and unintentionally over time out of human interaction, and they take forms such as codes of conduct, conventions or norms’ (Havnevik and Hårsmar 1999, p. 42; cf. also Eriksson Skoog 1998).

East African countries have a turbulent history when it comes to formal institutions. Large problems still persist (Ellis et al. 2007; Fjelstad and Semboja 2000). One of the major problems is the absence of a legal system that clearly states property rights in productive assets and a court system able and willing to assure those rights (Rugumamu and Mutagwaba 1999). The regulatory policies taken together with economic crises create a fertile ground for corruption (Tripp 1997), which is still a major hindrance in economic development (Rylander 2014; Svensson 2000). On Transparency International's corruption score, where 0 is highly corrupt and 100 is very clean, Tanzania, Kenya, and Uganda score 31, 26, and 25, respectively.

The clash between formal institutions and the prevailing culture in society creates cooperation problems between institutions and private companies as well as between formal and informal businesses (Dia 1996). Focusing on local communities and incorporating the 'local voice' into development assistance is not enough (Mustapha 2000). The World Bank argues that captivity in indigenous institutions decreases as markets develop. Authors such as Berry (1993) argue that, for example, smallholders can still not join market-related development due to their clash with traditional power structures. Others (e.g., Seppälä 1998) believe that smallholders will continue their present actions because their common way of thinking is not in line with market logic. The institutional safety net of the poor on a local level cannot be counted on, according to Mustapha (2000). As an example, Mustapha says that males in difficulty might decide to migrate from the community, leaving wife/wives and children without sufficient sources of income to sustain their livelihoods.

A dominant influence on the rules of the game in East African society is what Hydén in his seminal book (1983) termed 'economy of affection,' that is, extensive economic interaction, and favors given between relatives and friends. Belonging to a community such as a family, clan and/or tribe is important for many Africans (Mothander 1996). Schoolmates and people in church might be others toward whom loyalty is directed. Loyalty toward someone as abstract as an employer or an employing company is not prioritized (cf. Andersson and Pettersson 1997; Trulsson 1997). As early as in 1999, Olomi suggested that more research is needed into specific African issues like influences of the extended family, looking not only at the negative but also at the positive effects.

Both formal legal rights, but more so traditional legal institutions, are discriminating against the poorest of the poor, that is, the rural women (Rwebangira 2000).[5] Patriarchal relations that define gender and power relations around the world are likely to be more strongly felt in African societies (Rutashobya and Nchimbi 1999). Early socialization of women affects their motivation for achievement, self-confidence, and ability to take risks. Women are hampered by a heavy workload due to full responsibility for domestic activities (Kibera and Kibera 1999). Due to lack of electricity, machines (for washing, cleaning, cooking, etc.) and intermediates, domestic activities cannot be dealt with only during evening hours. Partly as a response to their domestic responsibilities, women have long

[5]Having no right to inherit from her husband, a widow can choose between going back to her kin (if she still has any), living with her children on a spot allocated by the husband's kin or being inherited by a relative of her husband to live with him as his wife. Limited rights to child custody and assets in the event of divorce also contribute to Rwebangara's conclusion that the legal system communicates to women that 'it does not pay to invest in marriage' (Havnevik 2000a, p. 20).

operated smaller and less profitable home-based business activities (Tripp 1997; Vaa 1989). Vaa (1989) also discusses the centrality of the home compound in African women's often diversified enterprising activities. Traditional prejudices have contributed to the problems of married female entrepreneurs, and Rutashobya and Nchimbi (1999, p. 217) write:

> Most men see the fact that women are controlling the cash income as a big challenge to their self-esteem and their reaction range from passivity to withdrawal of the useful cash support that they used to give to their women. More serious is the sexual harassment (domestic violence) directed to some women (wives) who happen to possess more economic power than their husbands.

These conclusions, also regarding domestic violence, were confirmed in my earlier study of male and female entrepreneurs in small town Tanzania (Tillmar 2002) as well as in another study on urban centers in East Africa (Tillmar 2016b). To the extent that a change process is going on in these dimensions, it seems much slower than the economic development on the national level.

4.4 Setting the Scene: Examples of Disputes and Lack of Justice

From the study presented here, there is no doubt that business disputes are part of everyday life. Among both men and women in all three countries, finding reliable business partners, suppliers, customers, and employees are major challenges. Losses due to either theft by employees or failure of customers to pay debt or the failure of suppliers to supply prepaid goods or different varieties of fraud by business partners are narrated by almost every respondent. Among urban operators of small- and medium-sized businesses, such instances are simply part of the business environment. Resolution mechanisms are not readily available. There is agreement among the respondents that they cannot go to the police. The police and the court system is only a good place if you want to lose more money and time: 'If you go to the police, you will get other problems, you will lose more money and time.'

Corruption is a big issue that is taken for granted and also presupposed in the business community. To put it another way, there is lack of trust in the police, courts, and other formal institutions. From the interviews in this study, no difference could be perceived between the three countries or between men and women in this respect. However, there was agreement as to the class dimension. Among the interviewees, there was some variety in terms of wealth, but most of them belonged to what could be termed the lower middle class. Their perception was that the upper classes had an advantageous position in relation to formal authorities of different kinds. One example given was that of accessing title deeds for land in order to be able to prove ownership in case of any conflict or when accessing credit: 'Like the bigshots, they have access to that title without any problems. Now, for us…It makes us really struggle a lot to access the legal documentation.'

In addition to this, women entrepreneurs face other challenges. A patriarchal society implies that men are also given priority in legal and commercial disputes: 'When men arrive, they get priority.'

These perceptions of women entrepreneurs were also confirmed in discussions with women's rights organizations such as the Tanzania Women Lawyers Association (TAWLA) and the Uganda Women Entrepreneurship Association Limited (UWEAL). As I have narrated elsewhere (Tillmar 2016a), women's access to justice depends on whether or not they are married. A married woman is treated with more respect in business cooperation with men than an unmarried, widowed, or divorced woman. However, if a husband is not supportive of his wife's business, he may be the one causing the problems. The so-called transactional sex, that is, requirements for sexual services as a kind of bribe for access to finance, a tender, or other business deal, is another problem in the East African context, which has also been discussed in the literature (Luke and Kurz 2002; Tillmar 2016a, b). In the current study, such problems were more often narrated by single women than by married ones. To avoid the situation, some interviewees pretended to be married: 'I don't disclose to everybody that I am not married. It is a secret…I pretend that my husband has opened the business for me, so we are together.'

4.5 Perceptions of Dispute Resolution Mechanisms

Given the challenging situation in terms of commercial justice in combination with the fact that entrepreneurship is an important source of income, one wonders how entrepreneurs go about meeting the challenges and resolving disputes. Business is still going on. The economy is growing. The 60 interviews conducted revealed striking similarities between the three countries and striking differences between men and women. Hence, the description that follows is divided into dispute resolution mechanisms perceived and narrated by men and those perceived and narrated by women.

4.5.1 Men's Perceptions

Macrolevel institutions in society, such as the police and courts, were not mentioned by any of the interviewees as an option for support. Formal institutions in general were very seldom referred to spontaneously by the interviewees. When asked for details, some referred to local government officials. A male interviewee dealing with agriculture produce and food-processing involved the local government officials in the village in his business to get local assistance in case of any conflict. In Tanzania and Uganda, the interviewees said that in disputes involving a rural setting or in particular a village, local government officials could be helpful in arbitrations. In Dar es Salaam in Tanzania, one of the interviewees even perceived the so-called 10 cell system (the head of every 10 houses) to be someone to turn to in case of a business dispute. Others argued that industry organizations sometimes respected chairpersons and/or executive secretaries who could be of help. In Dar es Salaam, the Tanzania Chamber of Commerce Industry and Agriculture (TCCIA) was mentioned as another such organization.

More common, however, was a reference to informal procedures, some of which were peaceful while some of which were more violent. Starting with peaceful procedures, a very common strategy that was followed was activating a network of family and friends and also common acquaintances. The process followed was: ‘Sometimes if I want my money back, I use the people who know them (those in debt) and that they respect, so that they (the respected people) can help me to urge them to pay their debt.’

In the local East African environment, there are also those who specialize in sorting out conflicts, in more or less peaceful and more or less coercive ways. These local people are called ‘bush lawyers.’ Their methods vary: ‘Sometimes the debtors use “bush lawyers” to help them with their case. Bush lawyers have a very big influence.’

Some interviewees narrate in a straightforward manner violent ways to resolve business disputes: ‘The creditor normally finds a way to make you pay, for example, they can use robbers to kill you or to steal from you.’

4.5.2 Women’s Perceptions

The stories of women entrepreneurs were very different from those of men. The first difference is that they perceived far fewer options to resolve disputes. Just like male entrepreneurs, women entrepreneurs also did not perceive the formal system as a solution. When asked to give more details about the local government or tribal elders, many answered that these may be more helpful in rural areas that are more homogenous. Some interviewees explicitly mentioned the gender bias in these institutions: ‘They favour men and […] with those elders, women don’t have power, you cannot say anything.’

Gender bias among government representatives was also confirmed by the Tanzania Women Lawyers Association, which described the use of customary laws in villages. There are of course examples of women who receive support from their husbands, who can use their networks for dispute resolution: ‘I also have a husband, so I had to talk to him. My husband helped me to talk to the person until he was afraid.’

The other side of the coin is lack of such support for single women: ‘It is easier for someone to just take your money and go away because they know you cannot do anything because you don’t have a husband.’

According to others, people who are in debt and have not fulfilled their obligations will eventually do so with patience and understanding: 'What you do is you talk to them…and they pay little by little. Life if hard. Many are women. And you understand the problems of women.'

Most women, however, became quiet and looked resigned when asked how they went about resolving business disputes. One of them said that she had been depressed for quite some time after fraud involving a business partner. She was about to give up, but was supported by her daughter, who said: 'Mum, milk has been spilled, you are wasting time. I think you should start afresh.'

Many of the women entrepreneurs eventually accepted these losses as part of everyday business life: 'You have to have some margin for the losses in any business.'

They developed an explicit 'forgive and forget' strategy of not letting these issues hinder them in developing their businesses. Not seldom, they referred to their trust in God as the reason for continuing:

> You have to forgive, you cannot go to the police, then you will sit idle for six months and just lose time.
>
> I just leave it, I continue forward.
>
> We start again. We trust in God.

4.6 Discussion and Conclusion

The East African nations studied in this chapter are low-trust contexts, where frequent business disputes are part of everyday life. How these are handled and resolved is therefore a major question that affects business development. It is my opinion that these issues are not debated and discussed enough. This chapter intended to spur and inform such a debate.

Apart from the differences between men and women, empirical results also suggest that there are not only formal and indigenous mechanisms available, but that semi-formal dispute resolution mechanisms are also emerging as formal business organizations take on this task (Table 4.1).

Table 4.1 Dispute resolution mechanisms as perceived by urban entrepreneurs in East Africa

	Perceived by men	Perceived by women
Formal	Local government Ten-cell system	
Semi-formal	Informal arbitration by formal organizations	
Indigenous	Friendly use of common networks Unfriendly use of 'bush lawyers'	Reliance on husband's network Frequent friendly reminders

In the urban context, which was the scope of this chapter, indigenous mechanisms of dispute resolution are not as strong as they are in the rural context. In many villages, the tribal organizations are still strong and the local government often has tighter control. In urban areas, ethnic groups are mixed and the social structure is fragmented. Yet, formal institutions which Westerners are used to and which they trust to a sufficient degree in their societies (see, e.g., Sxtompa 1999, for further elaboration) cannot fully guarantee commercial justice for urban SME owners in East African countries. Corruption and lack of funds is one reason, and lack of trust among citizens is another. A further elaboration of this vicious circle is outside the scope of this chapter. However, as a result of this, neither men nor women perceive formal institutions composed of the police and the court system to be arenas for dispute resolution.

Regarding semi-formal mechanisms, according to male entrepreneurs, official trusted persons in formal business organizations such as the chambers of commerce, at times act as arbitrators. When discussing the issue with representatives of these NGOs and other business support organizations (such as SIDO in Tanzania), it was seen that they were aware of the need for affordable arbitration even though they lacked funds to develop the service. The women who were interviewed did not refer to these organizations in this way. However, representatives of organizations such as TWCC and UWEAL have given such advice at times.

Both men and women referred to the completely informal, or indigenous, mechanisms of solving business conflicts more often. Here, men's narrations clustered into the friendly use of common networks (talking to relatives or other powerful people in the proximity of the person in debt) and unfriendly or even violent use of so-called bush lawyers. For women, the most common option was friendly repeated reminders combined with the hope that one day the debt will be paid. A few of the married women said that in instances of business conflict, husbands' support and their networks were mobilized.

The similarities were striking when Kenya, Tanzania, and Uganda were compared in terms of SME owners' perceptions of dispute resolution mechanisms. Overall, there were very few differences with the only exception being that the ethnicity dimension, that is, tribal issues, was seen to be more pronounced by interviewees in Kenya. The differences between men and women, however, were big in all three countries.

Further, indigenous institutions in developing countries, and their constraining and enabling aspects have long been debated (see Havnevik 2000b for a longer elaboration). The current study shows that while there are many constraining aspects, especially the gendered nature of these institutions, they are also enabling for male entrepreneurship. Currently, the business community almost gives the impression of functioning *despite* the formal institutions, rather than because of them. Networks and informal power structures among businessmen provide some stability. Needless to say, the situation for women entrepreneurs is the other way round. For them, indigenous institutions are still more constraining (see also Mustapha 2000; Rwebangira 2000).

On a brighter note, these 'rules of the game' seem to be gradually changing. New semi-formal mechanisms of conflict resolution within business support NGOs and an increasing commitment to these issues among organizations such as TWCC and UWEAL are promising. Also, the persistence and agency among women entrepreneurs provide hope. Women's groups (so-called vyamas, see Kinyanjui 2012) and the hope and moral support that they give to women are examples of this. The existence of these organizations and their increasing commitment to giving women legal advice and moral support also in business is another example.

4.7 Practical Implications

From this empirical study, we can conclude that working on modernizing formal institutions and fighting corruption and gendered practices is extremely important for economic development and GDP growth to trickle down to a broader spectrum of business owners. In particular, the current institutional situation is a major constraint for women entrepreneurs, who are otherwise argued to be important for both economic development and gender equality.

In some emerging markets and developing economies, alternative dispute resolution (ADR) mechanisms are being set up. At times, these are donor-supported. This study shows the potential of ADR, since there is a gap in the market for such services. However, the study also shows that such mechanisms are mostly needed among women, who most often run smaller businesses. The service thus needs to be made affordable and available to this target group. As EAC is developing its economic and political integration, these are issues which need to be addressed in detail. Furthermore, the gendering of all parts of society needs to be targeted by a continued focus on gender issues from the school age.

That the East African economies are growing rapidly in terms of GDP is visible. The roads are getting better, and modern infrastructures such as shopping centers and fancy hotels are mushrooming. Yet there are still challenges to overcome before the increasing wealth trickles down to owners of small businesses and to women entrepreneurs. The connection between formal and indigenous rules of the game in everyday business life which has been discussed in this chapter is one such challenge.

4.8 Further Studies

It follows that further studies are needed regarding the relation between the institutional situation and the development of businesses of various sizes, in various industries, owned by men and women as well as by different ethnic groups. This study focused on SME owners in urban centers, without comparing different ethnic groups or different industries. That is left for further studies. The same applies to comparisons between rural and urban contexts in terms of the use of indigenous institutional mechanisms for business purposes and the consequences of that. Centering on the gender aspect, a more detailed study of the agency of women business owners to overcome institutional constraints will also be very relevant. Studies of women's groups and cooperation among women have been done, but less research has been done on the prerequisites for women SME owners to cooperate and do business with male SME owners on equal terms.

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Part II
Challenges

Chapter 5
Microfinance Organizations in Africa: The Challenge of Transforming into Regulated Organizations

Olaide Rufai Akande, Orefi Abu and Hephzibah Onyeje Obekpa

Abstract Microfinance has been accepted as a viable approach of reaching the poor with financial services and has been linked to the growth of micro and small businesses. Motivated by the suboptimal performance of many African microfinance organizations (MFOs), because of their inability to transform into regulated entities, this chapter explores the policies that are needed for the transformation of these organizations. The results presented in this chapter show that the transformation probability of microfinance organizations is significantly improved by their state of maturity, scale of lending operations, and level of financial sustainability. The results of a simulation show that policies that concomitantly reduce financial expenses and increase the scale of lending operations of these organizations by 10 % from their existing values will most likely lead to optimum transformation of the currently unregulated MFOs. The implications of the results presented here include the need for regulatory environments or laws which acknowledge different institutional models of MFOs in African countries. Secondly, for expanding scale and improving their financial sustainability, there is a need for funding assistance to currently unregistered MFOs. Funding should acknowledge the varied financial needs, strengths, and weaknesses of these organizations at different stages of their development.

Keywords Microfinance regulation · Probit model · Maturity · Scale of operation · Financial sustainability · Optimal regulatory regime

5.1 Background

With about 300 million people living on less than a dollar per day, Africa is home to some of the lowest per capital income countries in the world (UNEP-FI 2009). The lack of financial services to support economic activities among the poor people

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is one of the major factors perpetuating poverty in the region (IFC 2013). Consequently, in many African countries, people have limited capacity to adopt capital-intensive technologies, restricting productivity, inhibiting income, and domestic savings (Vincent 2005). This situation also constrains entrepreneurs in the continent to engage in new business ventures with the consequence that entrepreneurial activities are neither financially nor environmentally sustainable.

Microfinance has been accepted as a viable approach for reaching the poor with financial services and has been linked with growth of micro and small businesses (Littlefield et al. 2003; Omino 2005). Microfinance serves as a means to empower the poor and provides a valuable tool to assist the economic development process. This is because microfinance organizations (MFOs) can provide microloans to the poor people in an efficient and financially sustainable way. Microlending, microsavings, and other financial services to poor people are effective ways in which microfinance institutions help the poor people to build income and assets, manage risk, and work their way out of poverty (Otero 1999). However, commercial microfinance in Africa is a significantly less prominent trend than in Asia and Latin America (UNEP Financial Initiative 2009). As an indicator, Africa attracts a relatively low share of foreign quasi-commercial investment for microfinance—7 % compared to, for example, 28 % for Latin America and the Caribbean (CGAP 2004).

A reflection on best practices in microfinancing shows that commercial microfinance offers sustainable and efficient services. Commercial microfinancing involves delivering financial services to the economically active poor on a large scale through competing financially self-sustainable organizations. It represents a paradigm shift from less reliable provision of subsidized microfinance services to cost-effective and profit-making services (UNEP-FI 2009). According to Ledgerwood and White 2006, experienced MFOs can operate profitably on a large scale, serving many clients, and financing all or most of their loan portfolios with deposits. CGAP (1998) further argues that savings mobilization can help MFOs expand and deepen MFOs' outreach. This is because a larger number of poor households may use savings services rather than credit services. In particular, poorest households may rely on savings before they have effective demand for credit. Moreover, deposits from the public are less volatile source of funds than alternative sources, such as rediscount credit lines from central bank or from donor agencies. Thus, stable savings mobilization can expand lending operations of an MFO and also benefit the poor borrowers.

However, a critical factor that constrains the capacity of microfinance organizations in Africa is their status as informal or unregulated organizations. Underlying this is the fact that, in most countries, unregulated financial organizations are not permitted to mobilize savings and, in some cases, to lend to the public (UNEP-FI 2009; CGAP and Duflos 2011). At the center of the low performance, lack of regulatory requirements and deposit mobilization crisis of MFOs in Africa is the inconsistency between regulatory requirements and attributes of microfinance organizations (IFC 2009; CSFI 2009). Consistent with this is the evidence that after funding, regulatory barriers constitute the greatest challenge to the growth of MFOs in Africa.

The questions that emerge from this issue are as follows: What factors constrain the formalization of operation of African microfinance organization? And how can microfinance regulation in Africa be appropriately developed to effectively accommodate most MFOs in the region for improved financial access? This chapter answers these questions and provides insight into the policies that are needed for transformation of the currently unregulated MFOs. This study differs from traditional models which determine MFOs' transformation decisions in that it rests on a framework that explicitly acknowledges the probabilistic nature of costs and other determinants of the transformation of these organizations. The remainder of this chapter is structured as follows. Section 5.2 reviews relevant literature on risks and regulations in the microfinance industry. The statistical framework underpinning the econometric analysis as well as description of the data is presented in Sect. 5.3. Section 5.4 presents the findings and discusses the results, while Sect. 5.5 makes recommendation based on the findings.

5.2 Regulation in the Microfinance Industry: A Review of Literature

5.2.1 The Need for Regulation in the Microfinance Industry

The New Institutional Economics Theory emphasizes the role of formal rules in governing the exchange of goods and services between economic actors (Coase 1937; North 1990; Williamson 2000). To this extent, financial regulators insist on the need to screen out inefficient or underperforming owners/managers in financial businesses, requiring transparency in reporting and disclosures, and guide against unsecured lending. Regulators also insist on capital adequacy and provide rule for provisioning for loan losses and minimum capital requirements to guide against risk of adverse events occurring in the sector.

Several reasons exist why more sophisticated risk management approaches are needed by MFOs. GTZ (2000) points to some of these as follows. First, many MFOs have grown rapidly, serving more customers and larger geographic areas, and offering a wider range of financial services and products. To fuel this lending growth, MFOs increasingly rely on market-driven sources of funds, whether from outside investors or from local deposits and member savings. Preserving access to those funding sources will require maintaining good financial performance and avoiding unexpected losses. Second, the organizational structures and operating environments of MFOs can provide unique challenges. They may be very decentralized or too centralized (both can be a risk) and tend to be labor- and transaction-intensive. GTZ (2000) further argues that MFOs tend to have concentration risk in certain regions or sectors (e.g., agriculture) due to their mission. They also often operate in volatile and less mature financial markets. Moreover, MFOs are striving for financial viability through cost-effective and efficient operations, making effective risk management essential to achieving better capital and cash management without undue risk.

Studies on risk severity in microfinancing (CSFI 2009 and IFC 2009) indicate that risk arising from ownership and governance, credit portfolio, liquidity position, operation and management task, interest rate, and exchange rate constitutes the greatest and fastest growing sources of risks to African microfinance industry. Moreover, most MFOs are exposed to credit risk as their portfolios tend to be more volatile than portfolios of financial organizations that use traditional lending techniques (Ledgerwood and White 2006; Hannig et al. 2000). A big source of concern on this issue is the lack of an appropriate risk safeguard mechanism. One perspective on this issue argues that the use of collateral substitutes and reputation-based repayment incentives is a big problem. Furthermore, the low level of contract enforcement capabilities coupled with homogeneity in geographical proximity and market segments creates considerable credit risk for microfinance organizations. According to Armendáriz de Aghion and Morduch (2000) and Churchill (1999), the group lending mechanism used by many MFOs suffers from such disadvantages as domino effect or risk of contagion if one of the members is unable to meet his repayment obligation.

Concerns about dynamic incentive point at its drawbacks. For instance, Morduch (1999) points to the fact that the power of this mechanism against moral hazard diminishes in situation of competition and increasing mobility of borrowers. This is because borrowers may have the opportunity to take loan elsewhere and default on previous loan. Moreover, the danger in progressive lending is related to the finite repeated game problem. For example, if the relationship has a clear end, the customer will have an incentive to default in the final period. Furthermore, subjective judgment as a risk-diffusing instrument in microfinancing has many defects. First, this mechanism requires a fair amount of time per applicant and is expensive for a lender (Babu and Singh 2007; Hand 1998; Lewis 1992). Similarly, evaluating a loan proposal and defining the terms for each particular client may be very costly to the MFO, resulting in reduced profitability. Secondly, as written within the credit-scoring literature (Hand 1998; Lewis 1992), judgmental approach lacks a reasonable quantification of credit risk as borrowers' characteristics are analyzed in this approach sequentially rather than in combination, thereby ignoring their correlation.

Perspective on risk management attitude among MFOs indicates that despite the growth in importance of many types of risks in the microfinancing business, several microfinance organizations are yet to fully recognize the critical role of risk management in the successful implementation of their growth plans. Fernando (2008) elaborates this point as follows. First, there is the lack of comprehensive risk management systems among most MFOs. Second, there is a lack of interest among most MFOs in managing credit risk. The latter is evidenced in the lack of reliable, accurate, and timely data on many MFOs' loan collection rates and portfolio quality. There is also the absence of systematic efforts by many of these organizations to analyze their loan portfolios from a credit risk management point of view. Fernando's study further revealed a dismally low level of risk coverage even among experienced MFOs.

The implication of the review presented here is that, in order to safeguard the interest of the MFOs' poor clients and the economy, it is necessary that the internal risk management system adopted by African MFOs be complemented with prudential governance mechanism.

5.2.2 Microfinance Regulation Theories

Financial regulation theory has its roots in the New Institutional Economics Theory. Beginning with the premise that institutions matter (North 1990; Williamson 2000), the institutional environment refers to the set of fundamental political, social, and legal ground rules that establish the basis for production, exchange, and distribution (Davis and North 1971). Institutions define the conditions under which business occurs (North 1990). Institutions are the humanly devised rules of the game. They exist as both formal and informal norms of behavior. Formal institutions are explicitly created, usually by law and government (North 1990). They include the formal written rules, regulations, laws, and contracts that represent the choices made by a society to give structure to its relations with others. Implicit in the tenets of this theory is that formal institutions lessen uncertainty. Formal institutions spell out in written form what is acceptable and what is not and thus promote more cost-efficient transactions to take place.

Portfolio of formal regulation affecting a business consists of three main aspects (UNECE 2012). These include horizontal legislations, sector-specific regulations, and the organization's internal control procedures. One example of horizontal regulation is property rights and contract enforcement rules.

Property right and contract enforcement rules are market-creating and dispute-resolving rules without which exchange cannot occur efficiently (Rodrik 2003; Djankov et al. 2002). Therefore, societies with weak property rights and contract enforcement rules not only grow more slowly in the long run, but experience greater volatility (Acemoglu et al. 2003; IMF 2003). Where corruption and appropriation of private property are common, the potential returns on investments are reduced and possibly eliminated altogether. Moreover, formal institutions serve to influence the balance of diversionary (rent-seeking) and productive activities in society (Hall and Jones 1999). Also, property rights and contract enforcement improve the environment for economic activity by reducing the transactions costs faced by the firms. Therefore, institutions matter where there are transaction costs (Coase 1960).

Property rights further provide protection of assets held by individuals or firms against expropriation by others (Frances 2004). They ensure that a firm maintains control over the returns to the assets it has invested in. Therefore, economic institutions that allow property rights to be secured enable people to keep the returns on their investment. Aron (2000) further notes that without reliable enforcement of property rights, firms tend to be small scale, use less capital-intensive techniques, and have short-term horizons. Therefore, if property rights are improperly defined or left ambiguous and unenforced, resources will be wasted as people try to capture or defend their claims to resources (Saleh 2004). Moreover, formal institutions that enforce contracts provide assurance to firms that their interests are protected, should agreement not be fulfilled. Contract enforcement also addresses some of the uncertainties inherent in open market transactions. According to Saleh (2004), sophisticated contracts can facilitate complex transactions, involving multiple parties, covering long-time periods, and requiring interrelated projects and deliveries. Without effective property right enforcement therefore, potentially valuable exchange might be forgone (Frances 2004).

Referred to as the set of rules governing financial operations of actors in the microfinance sector, microfinance regulation is an activity-specific formal regulation (Frances 2004). Control ensures compliance with those rules (Ledgerwood and White 2006). Prudential regulation governs the financial soundness of licensed intermediaries to prevent financial system instability and losses to the society. Therefore, the aim of prudential regulation is to reduce the risk that depository institutions will fail (Porteous et al. 2010). Furthermore, regulation ensures financial stability by requiring licensed institutions to adhere to the prescribed standards of capital adequacy and risk management. Regulation also creates the capacity to control the regulated institutions and ensure compliance (Ledgerwood and White 2006). In contrast to prudential regulation, non-prudential regulations are regulations that can be achieved regardless of financial health of the financial organization. These may include permission to lend, tax treatment, consumer protection, and regulation in financial crime among others (CGAP and Duflos 2011).

Perspective on management-based regulatory strategy regards it as a strategy that mandates business entities to produce plans that comply with general criteria designed to promote their targeted social goal. Management-based regulation is considered most effective among the regulatory strategies in the regulatory portfolio of a business concern (Posner 1974). The advantage of this strategy over other traditional regulatory strategies is that it places responsibility for decision making on those who possess the most information about risks and potential control methods (Posner 1974). Thus, the actions that financial organizations take under a management-based approach may prove to be less costly and more effective than under government-imposed regulatory standards (Ayres and Braithwaite 1992). Moreover, by allowing firms to make their own decisions, managers and employers are more likely to view their own organization's rules as reasonable, and as a result, there may be greater compliance than with government-imposed rules (Ayres and Braithwaite 1992; Kleindorfer 1999; Coglianese and Nash 2001). In this way, as well as by enlisting the assistance of private, third-party certifiers, management-based regulatory strategies may help mitigate the problems associated with limited governmental enforcement resources.

Regulation in microfinance industry could benefit microfinance organizations in several ways (Ledgerwood and White 2006; Felipe 2011; CGAP and World Bank

2005). First, regulated financial organizations have access to a greater and more diversified funding base. Second, clients of regulated microfinance organizations are also offered a greater array of financial services (savings, micro insurance, and remittances). Third, regulation provides a better framework for risk management, corporate governance, and the reinforcement of internal controls. Fourth, formalization allows an MFO to attain a greater leverage and thus to intermediate more resources to grow the portfolio. Fifth, with rapid portfolio growth, MFOs will be able to reap economies of scale, consolidate their sustainability, and attain a massive outreach. Sixth, transformation to regulated organization tends to reduce the financial costs of an MFO which gains access to lower cost funds. Additionally, a transformed MFO will have more success attracting external investors, thus facilitating its growth.

Porteous et al. (2010) further note that savings mobilization benefits the MFOs on two main grounds. First, it can help an organization to achieve long-term viability by providing a stable source of relatively low-cost funds. Second, MFOs can drive large-scale outreach by broadening both the product array and their client base. The assumption is that depositors are not in a position to monitor the risks taken by a financial institution and to take appropriate corrective action (Diamond 1984; Staschen 1999). Regulation, therefore, protects customers' deposits from unsound lending practices. Depositors derive implicit benefit depositing their funds in safe, regulated institutions than unregulated ones. In turn, regulated MFOs accumulate deposits and lend at lower rates than the unregulated ones and by so doing enjoy viability, financial soundness, and wider client base than the unregulated MFOs. Furthermore, because MFOs can often have considerable local market power which can result in monopolistic lending practices, usurious interest rates, and expensive fees, regulation also protects microfinance borrowers (Ledgerwood and White 2006).

Despite the benefits of microfinance regulation, the requirements for an MFO to transform into regulated organization may be cost- and labor-intensive. According to Meagher (2002), microfinance organizations often face the cost of inappropriate regulation. Felipe (2011) further explains that the process of transformation of microfinance organizations into regulated organization is bedeviled by several costs. Such costs, according to this view, include the following: costs of regulatory compliance and the cost to MFO of allocating extensive time and critical resources to the transformation process. Fellipe (2011) submits that converting unregulated MFOs into regulated organizations involve the cost of experimenting with the issues of cultural change as they convert into more commercial driven entities. Legerwood and White (2006) further explain that an MFO-seeking transformation to regulated organization must meet regulatory specifications that include minimum capital, capital adequacy ratios, liquidity ratios, accounting and audit standards, criteria for opening branches, and reporting requirements. Such organization must also have high-quality ownership, governance, and management capacity that is appropriate for a financial intermediary. Legerwood and White (Ledgerwood and White 2006) argue that MFO-seeking transformation needs to have a track record of high-level performance and transparency demonstrated in effective and efficient operations, maintaining a high rate of loan recovery, and regularly earning good returns. According to this view, such organization should be financially self-sufficient, with considerable outreach. And, it must have a corporate culture that is open to new ideas, new products, and new methods. Moreover, the organization must be prepared for far-reaching changes.

Overall, the lesson learnt from the review is that while regulation could be advantageous, matching the requirements of the regulators with MFOs' character as well as assets for transformation may be a difficult task. Concerns about the latter have led to studies adopting unique equilibrium models. However, common experiences reveal more complicated pictures of reality characterized by stochastic behaviors. This chapter searched for optimum conditions in microfinance regulation assuming stochastic nature of MFOs' desires to come under microfinancial regulation.

5.3 Econometric Framework and Data

5.3.1 Estimated Model

The fixed effect probit model estimated in this study is stated as follows:

$$\begin{aligned} P(Y=1|X) = {} & \gamma_0 + \beta_1 prst_{it} + \beta_2 age_{it} + \beta_3 scal_{it} + \beta_4 capasst_{it} + \beta_5 capasst\_NGO_{it} \\ & + \beta_6 capasst\_CUCOOP_{it} + \beta_7 debteq_{it} + \beta_8 finexp_{it} + \beta_9 finexp\_NGO_{it} \\ & + \beta_{10} finexp\_CUCOOP_{it} + \gamma_1 NGO_i + \gamma_2 RURALBANK_i + \gamma_3 CUCOOP_i + \varepsilon_{it} \end{aligned} \tag{5.1}$$

where $prst, age, scal, capasst, debt, finexp$ are profit status, age, scale of lending operation, equity to assets ratio, liabilities to assets ratio, and financial expenses of the microfinance organizations, respectively. The variables $capasst\_{NGO}$ *and* $capasst\_{CUCOOP}$, respectively, are dummy variables capturing the effects of equity to assets ratios of NGOs and Credit Unions/Cooperatives on their transformation probability. Similarly, the variables $finexp\_{NGO}$ *and* $finexp\_{CUCOOP}$, respectively, are dummy variables which capture the effects of financial on transformation probability of NGOs and Credit Unions/Cooperatives. Furthermore, the effects of NGO, Rural Bank, and Credit Unions/Cooperatives models on transformation probability are captured by the fixed effects on NGO, RURALBANK, and CUCOOP variables, respectively. β_i are parameters, γ_i are fixed effects, and ε_i is a normally distributed unobserved utility, while i and t are index time series observations and time, respectively. Details on the measurements of these variables are as presented in Appendix A, while information on derivation and estimation of the model are presented in Appendix B.

5.3.2 The Data

The data used for the study were panel data on African MFOs. These were collected from the Web site of the MIX Market (www.mixmarket.org). The data spanned between 1998 and 2010. They consist of one thousand three hundred and twenty-one (1321) time series observations which were randomly sampled to minimize missing values in relevant variables. The variables used were as defined by the Microfinance Information Exchange (MIX) and as adapted in Appendix A.

5.4 Results and Discussion

5.4.1 Results

The estimated probit model of MFOs' transformation probability is summarized in Tables 5.1 and 5.2 and Figs. 5.1, 5.2, and 5.3, while the result of simulation analysis is presented in Table 5.3 and Fig. 5.4. Preliminary information on the fitness of the model indicates a good fit of the model to the observed data. Specifically, the likelihood ratio (LR) test which compared model with explanatory with the restricted model rejected the latter in favor of the former implying that characteristics of the MFOs significantly influence their transformation probabilities. Similarly, the McFaden Pseudo R^2 of 0.22 showed that the included explanatory variables explained between 50 and 60 % of the variations in the probability of the MFOs transforming to regulated organizations (Hensher et al. 2005).

Table 5.1 Probit model of factors influencing transformation probability of African MFOs

Transformation	Coefficient	Std. error	Z stat	Sig. level
Constant	0.0129	0.28868	0.04	0.96
Prst	0.20400	0.19650	1.04	0.2992
Age	0.14772**	0.06012	2.46	0.0140
Scal	0.30235***	0.06906	4.38	0.00
Capasst	0.30977	0.28923	1.07	0.2842
capasst_NGO	–0.44797	0.32893	–1.36	0.1732
capasst_CUCOOP	–0.047483	0.31431	–1.51	0.1309
Debtteq	–0.00119	0.00150	–0.79	0.4267
Finexp	–4.6229**	1.80916	–2.56	–0.0106
finexp_NGO	4.50100**	2.06014	2.18	0.0289
finexp_CUCOOP	–9.880992**	439120	–2.25	0.0244
NGO	–0.56586**	0.25991	–2.18	0.0295
RURAL BANK	–0.56657*	0.31714	1.79	0.0740
CUCOOP	1.66245***	0.32691	5.09	0.0000

***,**, * -Significant at 1, 5, 10 %
Source Authors' calculation

Table 5.2 Marginal effects of MFOs' characteristics on their transformation probability

Transformation	Coefficient	Std. error	Z stat	Sig. level
Prst	0.04548	0.04413	1.03	0.3027
Age	0.03258**	0.1318	2.47	0.134
Scal	0.0668***	0.01489	4.48	0.000
Capasst	0.06832	0.06369	1.07	0.2834
capasst_NGO	–0.09880	0.07233	–1.37	0.1720
capasst_CUCOOP	–0.09880	0.07233	–1.37	0.1299
Debtteq	–0.00026	0.00033	–0.80	0.4264
Finexp	–1.01959***	0.39598	–2.57	0.0100
finexp_NGO	0.99270**	0.45194	2.20	0.0281
finexp_CUCOOP	–2.1792**	0.9609	2.21	0.0239
NGO	–0.13745**	0.06781	2.03	0.0427
RURAL BANK	0.10519**	0.04711	2.23	0.0256
CUCOOP	0.261560***	0.03426	7.6	0.00

***,**, * -Significant at 1, 5, 10 %
Source Authors' calculation

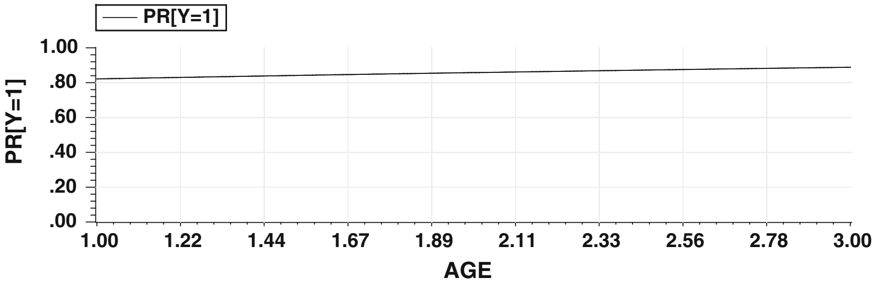

Fig. 5.1 Marginal influene of age on transformation probability of African MFOs

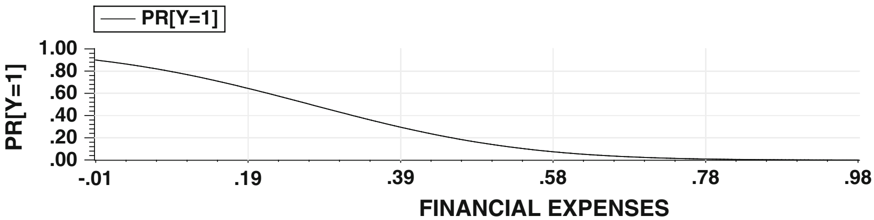

Fig. 5.2 Marginal influence of financial expenses on transformation probability of African MFOs

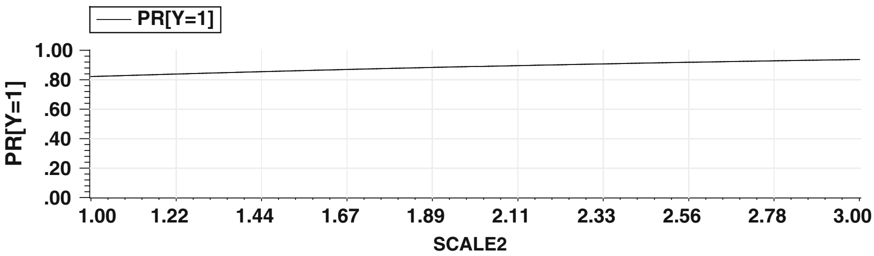

Fig. 5.3 Marginal influence of scale of lending operation on transformation probability of African MFOs

Table 5.3 Response of African MFOs' transformation to future change in policies affecting their size and financial expenses

Scenario	Number of unregistered MFI (base case scenario)	Concomitant percent increase in MFI's size and decrease in financial expenses	No of MFIs transformed from the predicted base case scenario by policy change	Marginal effect of policy on MFI transformation (% of the total in the sample)
1	134	5	17	3.40
2	134	10	39	3.90
3	134	15	53	3.30
4	134	20	57	2.85
5	134	25	77	3.08
6	134	30	85	2.83
7	134	35	87	2.48
8	134	40	90	2.25

Source Authors' calculation

Regarding factors influencing transformation of MFOs into regulated organization, findings indicate that this process is significantly determined by MFO's age, its scale of lending operation, the level of financial expenses incurred, and the MFO's model type. More to the point, with a marginal coefficient of 0.03 and 0.07, respectively, increases in age and scale of operation increase the probability of the MFOs transformation into regulated organizations. In contrast, increases in expenses on financial liabilities such as interest fee (or decreases in financial sustainability) decrease the probability of the MFOs transforming into a regulated entities. However, the relative negative effect of financial expenses on non-governmental organization microfinance organizations' (NGOs) probability of transformation was smaller. This, in other words, implies that expenses on financial liabilities by NGOs type have a lower reducing effect on its transformation probability compared with other MFO models. In contrast, however, the negative effect

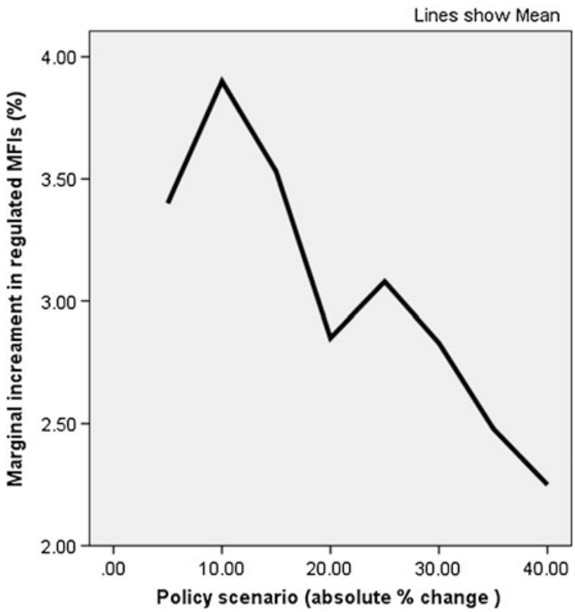

Fig. 5.4 Marginal effect of size and financial sustainability increment on transformation of African MFOs. *Source* Authors' calculation

of financial expenses on transformation probability was highest for MFOs operating as Cooperative and Credit Union. The lower effect of financial expenses of NGOs on their transformation probability is expected since most African NGOs rely on low-cost funding and free grants in their lending operations.

Furthermore, the fixed effect coefficients show that the probability of transforming into regulated organization varies across the MFO models. Specifically, Rural Bank and Credit Union and Cooperative MFO type had significant and positive potentials to transform into regulated organization compared with bank and non-bank financial institution–MFO type. In contrast, the fixed effect on the NGOs type was significantly negative and least in magnitude compared with others, implying that NGOs type in Africa hardly transform into regulated organization. This further suggests that the NGOs type in Africa favors credit only operation over any other models of microfinance organization.

Given the result from the analyzed data, a stochastic equilibrium situation was simulated by projecting changes to scale of lending operation and financial expenses of the MFOs. The simulation experiment was conducted by concomitantly improving scale of lending operation and reducing the financial expenses of these MFOs by the same percentage of 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 35 %, and 40 %, respectively. Finding from this analysis (Table 5.3) indicates that a new equilibrium with optimum transformation of the previously unregulated MFOs could occur with a 10 % concomitant reduction in financial expenses and improvement in MFOs' scale of lending operation.

5.4.2 Discussion

The result from the regression analysis indicates that a lack of maturity or young age, small scale of lending operation, and low level of financial sustainability are significant and mutually reinforcing constraints impeding MFOs' transformation in Africa. The solution to this problem should start with regulatory environment which acknowledges different institutional MFO models under laws. This regulatory environment should provide demarcation between banking law, cooperative law, specific microfinance law, and any other law defining a lower 'tier' of financial institutions'.

Regarding growth funding policies to overcome these constraints, there are alternative ways in which the young unregulated MFOs could be funded to become strong, matured, and financially sustainable organizations. Sustainable small MFOs' growth could be funded through loans, share capital, or subsidies and free grants from donors (Hoque et al. 2011). However, the problem with donors fund and subsidies is volatility. This is because these sources of finance may be limited and are exposed to what happens in the global economy (Cull et al. 2009), especially foreign exchange risk. Furthermore, reliance on donors' funding may hold back these organizations from growing because funding from donors is not only limited, but may also jeopardize the development of the business. This is because donors' actions might prevent the MFOs from acting professionally and also cut costs (Schreiner and Murdoch 2001). However, there are various obstacles for these MFOs if they want to turn to the traditional financial markets for funding at the early stage of their development. First, commercial actors demand a higher degree of efficiency and ability to cut costs (Campion 2002). Second, as these MFOs are relatively young institutions, they will lack the standardization and accreditation that commercial actors would demand. Regarding savings option, this constitutes a relatively cheap source of capital that is insensitive to market fluctuations. However, prescribing savings mobilization for unregulated MFOs for on-lending is like prescribing a gradual death sentence to depositors the society is willing to protect.

Overall, given the fact that financial sustainability of an MFO comes with age and that transformation is conditional on sustainable organization, support for small, unregulated MFOs' growth needs to consider their stage of development and therefore the form of support applicable. To this extent, several options may be appropriate. First is the assistance in the form of a one-time start-up capital injection from donor grants. Second, assistance could also take the form of start-up loan with graduated and fairly long repayment period. The latter may help cover MFOs' high initial fixed costs and could be invested to provide a stream of income that reduces net average costs, while the MFO is encouraged to keep down costs and innovate. In this regard, policy attention may be turned on donors and such institutional investor as International Finance Corporation (IFC) who are well known to provide active support in this direction. Third, guarantees for bank loans and improved regulatory environment could also enable some of these small MFOs to attain low-cost fund for capital. In this instance, support policy could take a cue from the USA where, for example, traditional banks lend to MFOs at a rather low interest rate. The latter is derived from a federal initiative called Community Reinvestment Act, which mandates banks to participate in the local economic development (Bredberg and Ek 2011). However, this funding support is likely to be optimum when MFOs' current scale of operation and their financial expenses are concomitantly and respectively increased and reduced by a margin of 10 % from their current positions.

5.5 Conclusion and Recommendation

Findings in this study point to the significant negative role played by young age, small scale of lending operation, and low level of financial sustainability on transformation probability of unregulated African MFOs. The implication of this for policy makers is the need for regulatory environments which acknowledges different institutional models of MFOs. Such environment should differentiate between banking law, cooperative law, a specific microfinance law, or any other law defining a lower 'tier' of financial organizations. Secondly, there is the need for more funding assistance to small MFOs in the continent for scale expansion and financial sustainability. The latter is likely to be optimum for the transformation of the unregulated organizations when it concomitantly improves financial sustainability and scale of lending operation of these institutions by a 10 % margin from their current positions.

5.5.1 Limitation and Recommendation for Further Study

The quality of findings in this study is likely to be affected by the quality of the data used. Specifically, non-availability of data on corporate governance variables and some observations on some of the variables used led to their omission. Future research employing quality data on corporate governance variables is expected to enrich the result.

Appendix: A

Acronym	Variable	Definition and measurement
NGO	Non-governmental organization MFO	A dummy variable that takes value of 1 when NGO, or 0 otherwise
CUCOOP	Credit Unions/Cooperatives type of MFO	Dummy variable that takes value of 1 when Credit Unions/Cooperative MFO type, or 0 otherwise
RURAL BANK	Rural Bank type of MFO	Dummy variable that takes value of 1 when Rural Bank MFO type, or 0 otherwise
Prst	Profit status	A dummy variable that takes value of 1 when registered for profit, or 0 otherwise
Age	Age	Years operated from inception of the MFO, measured as new if operated for between 1 and 4 years; young, if operated for between 5 and 8 years; and matured, if operated for more than 8 years
Scal	Scale	Gross loan portfolio, measured as large when > 8 million USD; medium, when between 2 and 8 million USD; small when < 2 million USD
Capasst	Capital-to-asset ratio	Ratio of total equity to total assets
capasst_NGO	Capital-to-asset ratio of NGOs	Ratio of total equity to total assets of NGOs
capasst_CUCOOP	Capital-to-asset ratio of Credit Unions/Cooperatives	Ratio of total equity to total assets of Credit Unions/Cooperatives MFOs
Debttoeq	Debt to total equity ratio	Ratio of liabilities to total equities
Finexp	Financial expenses	Expenses on financial liabilities such as interest fee
finexp_NGO	Financial expenses of NGOs	Expenses on financial liabilities such as interest fee of NGOs
finexp_CUCOOP	Financial expenses of Credit Union/Cooperatives type of MFO	Expenses on financial liabilities such as interest fee of Credit Unions/Cooperative MFOs
finexp_RURAL BANK	Financial expenses of Rural Bank MFOs	Expenses on financial liabilities such as interest fee of Rural Bank MFOs

Source Adapted from Mix Market 2010

Appendix B: Model Formulation

Model of MFOs' Transformation

The discrete choice model or random utility model (RUM) as it is often called is the workhorse for describing choice behaviors. RUM begins with a structural model which describes utility of consumers from a choice in terms of the characteristics of the choice alternative and the preference of the entity making the choice. Therefore, transformation decision of an MFO can be described by a random utility model as follows: Suppose there exists a continuous variable Y^* that we do not observe—a latent variable—which describes utility enjoyed from regulation by microfinance organization. This utility will be influenced by the characteristics of the regulation itself, the observable attributes of the microfinance institution, and the idiosyncratic or unobservable preference of the organization making the choice such that:

$$Y_i* = F(X\beta + \varepsilon_i),$$

where F is a function relating utility from transformation (Y^*) with exogenous variables; X is a vector of the observable characteristics and unobservable characteristics of the MFO; β is a vector of parameters; and ε is the random or unpredictable utility an MFO derived from regulation.

An MFO will choose to be regulated if it perceives the utility derivable from regulation (Y^*) to be greater than zero ($Y^* > 0$) otherwise not. Therefore, if we let $Y = 1$ categorizes regulated MFO and $Y = 0$ categorizes an unregulated MFO, the probability (P) that an MFO will choose to be regulated can be stated as follows:

$$\begin{aligned} P(Y=1|X) &= P(Y* > 0) = P(X\beta + \varepsilon > 0), \text{ (where } P \text{ is the probability)} \\ P(Y=1|X) &= P(X\beta + \varepsilon > 0|X) \\ &= P(X\beta) > -\varepsilon) \\ &= P(\varepsilon > -X\beta) \\ &= 1 - (\int -X\beta), \text{ exploiting symmetry of logistic distribution and integrating yields} \\ & \quad P = \frac{\exp^{(X_i\beta)}}{1 + exp^{(X_i\beta)}} \end{aligned} \tag{5.2}$$

However, if the unobserved utility from transformation, ε, is assumed to follow normal distribution (probit case), then the above steps can be rewritten as follows:

$$\begin{aligned} \mathrm{P}\ (\mathrm{Y}=1\,|\,\mathrm{X}) &= \Pr(\mathrm{Y}*\ >0\,|\,\mathrm{X}) \\ &= \mathrm{P}(\mathrm{X}\beta+\varepsilon>0\,|\,\mathrm{X}) \\ &= \mathrm{P}\ (\varepsilon>\ -X\beta) \\ &= 1-\ \mathrm{N}(-\frac{X\beta}{\sigma}),\ \text{exploiting symmetry of Gaussian distribution} \\ &\quad \text{and integrating yields} \\ &= \Phi(X\beta) \end{aligned} \tag{5.3}$$

Several formulations of Eqs. (5.2) and (5.3) exist for extensions to panel data. Following, Greene (2003), the variants of extension of binary probit model to panel data include:

- Fixed effects model: $\Pr(y=1)\ = F(\beta' x_{it} + \alpha_i), \alpha_i$ correlated with x_{it}
- Random effects model: $\Pr(y=1)\ = F(\beta' x_{it} + \varepsilon_{it} + u_{it} > 0),), u_i$ uncorrelated with x_{it}
- Random parameters model: $\Pr(y=1)\ = F(\beta' x_{it})$

$B_i|i \sim h(\beta_i \mid i)$ with mean vector β and covariance matrix Σ.

Parameters of Eqs. (5.2) or (5.3) are often estimated through maximum likelihood estimation (Greene 2003). The ML estimate of β is the particular vector β^{ML} that gives the greatest likelihood of observing the sample ($y_1\ y_2 \ldots Y_n$) conditional on the explanatory variables x. By assumption, the probability of observing $Y = 1$ is $F(xB)$, while the probability of observing $y_i = 0$ is $1 - F(F(xB)$. It follows that the probability of observing the entire sample is as follows:

$$L(Y\,|\,\mathrm{x};\beta)\ = \prod_{y_I=0}[1-(1-F(x_i\beta)\prod_{yi=1}F(\mathrm{x}_i\beta)]$$

This can be written as follows:

$$L(y\,|\,x;\beta)\ = \prod_{y_I=0}F(x_i\beta)^{y_i}[1-F(x_i\beta)]^{1-y_i}$$

When $y = 1$, we get $F(x_i\beta)$, and when $y = 0$, we get $[1 - F(x_i\beta)]$
The log likelihood for the sample is as follows:

$$\mathrm{LnL}(Y\mid x;\beta)\ = \sum_{i=1}^{N}\{y\ln F(x_i\beta)+1-y_i\ln[1-F(x_i\beta)]\}$$

The MLE of β maximizes this log likelihood function. If logistic CDF is assumed in (5), then we obtain the logit likelihood:

$$\ln L(Y\,|\,x;\beta)\ = \sum_{i=1}^{N}\{y_i \ln \Lambda(x_i\beta) + 1 - y_i \ln[1 - \Lambda(x_i\beta)]\}$$

$$\ln L(Y\,|\,x;\beta) = \sum_{i=1}^{N}\{y_i \ln(\frac{exp(x_i\beta)}{1 + exp(x_i\beta)} + (1 - y_i)\ln(\frac{1}{1 + \exp x_i\beta}))\}$$

This simplifies to:

$$\text{In}\,L(Y|x;\beta) = \sum_{i=1}^{N}\{y_i[x_i\beta - \ln(1 + \exp(x_i\beta))] - (1 - y_i)\ln(1 + \exp(x_i\beta))\}$$

However, if F is a standard normal distribution, we get probit estimator with log likelihood function:

$$\ln L(Y\,|\,x;\beta)\ = \sum_{i=1}^{N}\{y_{iln}\Phi(x_i\beta) + (1 - y_i)\ln[1 - \Phi(x_i\beta)]\}$$

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Chapter 6
Enhancing Organizational Citizenship Behavior: The Role of Employee Empowerment, Trust and Engagement

Ismael Byaruhanga and Bikadho Patrick Othuma

Abstract This chapter examines the relationship between empowerment, trust, engagement and organizational citizenship behavior (OCB) in two Sub-Saharan African countries. The chapter uses the social exchange theory as a lens to examine empowerment and OCB of employees in SMEs. A cross-sectional survey design was used to collect quantitative data from a representative sample of 376 respondents, selected from a targeted population of 545 in Rwanda and Uganda. A regression analysis run on two levels revealed a significant positive relationship between empowerment and OCB, indicating that empowerment is the most significant predictor of OCB. However, the study also reveals conflicting views among employees and supervisors regarding the relationship between trust and employees' engagement and OCB. While the regression analysis of employees' views indicates a significant positive relationship between their engagement and OCB, the opposite is true when analyzing the supervisors' views on engagement. Further still, a regression analysis of supervisors' views indicates a significant positive relationship between trust and OCB, while the opposite is true for employees' views on trust. The chapter discusses possible reasons for such conflicting views on trust and employee engagement, and recommends that the managements of SMEs in Sub-Saharan Africa should continuously monitor the level of empowerment, trust and engagement climate if they want their employees to exhibit OCB hence enabling an environment that fosters efficiency and effectiveness through the facilitation of OCB. The chapter has two main contributions: first, it contributes to literature on the challenges of SME management in developing countries. Second, its findings can help management practitioners to enhance OCB in SMEs in the Sub-Saharan region.

Keywords SME management · Trust · Empowerment · Engagement · Management skills · Absenteeism · Organizational compliance · OCB · Sub-Saharan Africa

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6.1 Introduction

Over the past decades, it has become evident that many organizations have continued to expand mainly as a result of improved employee performances (Kahya 2007). An effective workforce largely contributes to attaining organizational goals (such as good service delivery and improved performance) through organizational citizenship behavior (OCB). OCB is recognized as a major factor that may have a positive relationship with an enterprise's ability to successfully implement its organizational strategy and also for gaining competitive advantage (Sharma and Agrawal 2015). Organ (1988) argues that OCB is exhibited at the employee's discretion and is not associated with formal organizational rules or rewards. The three categories essential for employee behavior vis-à-vis overall organizational effectiveness were outlined in Katz (1964) seminal work: Individual employees must remain employed and loyal to the organization, employees must conduct themselves appropriately in order to fulfill specific job requirements (in-role behavior) and employees must engage in innovative and spontaneous organizational activities that are beyond the basis of their job descriptions (extra-role behavior).

OCB therefore refers to extra-role behavior or contributions that the employees freely and spontaneously make outside their formal job requirements. It is about 'going beyond the call of duty' and cannot be demanded by supervisors or the organization (Organ and Konovsky 1989) and its omission is not punishable (Tepper et al. 2002). According to Organ and Konovsky (1989), employees engage in OCB when they believe that their relationship with the organization is of a social exchange. This social exchange, which should be mutually beneficial, has the elements of equity and interpersonal relationships (Watt and Schaffer 2005). Examples of OCB include reporting early for work and volunteering to help colleagues with their work.

A study by Weitzel and Jonsson (1989) found that numerous characteristics shared by failed firms had a direct relationship with personal decision-based characteristics of the owner, managerial deficiencies and financial shortages. This is supported by a study by Cant and Wiid(2013) which argues that some of the main challenges faced by SMEs in Africa include lack of marketing knowledge and management skills, social influences and human resources and finance related matters. Considering a study by Bhutta et al. (2008: 130) which found that 'education, generation setting up the business, and number of partners have a significant relationship with the health of SMEs' it is possible that educated supervisors or owner managers are likely to create a work environment that fosters empowering less empowered employees.

Various studies have linked SME challenges to supervisor's/manager's characteristics (Bhutta et al. 2008; Keats and Bracker, 1988; Pansiri and Temtime 2010; Wijewardena et al. 2008). A number of studies have also linked firm strategy and organizational practices to firm size (Pansiri and Temtime 2010). The results of these two perspectives show mixed findings; however, research in these areas is still developing.

Due to their exposure to external factors and low survival rates, most SMEs in East Africa (particularly in Uganda and Rwanda) emphasize short-term results. Researchers examining the failures of SMEs have found that SME owners tend to neglect the importance of human resource management (Theng and Boon 2005). Managerial practices, including human resource management, rely on systems with imprecise definitions of duties and responsibilities and are not built on formal policies (Cardon and Stevens 2004; Pansiri and Temtime 2008).

For SMEs to flourish, employees' engagement in organizational citizenship behavior is a crucial factor which is vital (Mesu et al. 2009). The importance of organizational citizenship behavior for SMEs raises the question about which work-related antecedents play a role in predicting OCB in Sub-Saharan Africa.

Conversely, despite the findings and knowledge of academicians and human resource practitioners in developed countries, an understanding about whether trusting relationships associated with empowerment influence OCB in the workplace and if employees' engagement as associated with empowerment influences OCB in the workplace are rarely investigated in the developing world.

Previous studies on these constructs have mostly focused on firms in the developed world (USA and Europe) and therefore little is known about them in small to medium-sized enterprises in the developing world (such as Sub-Saharan Africa). This chapter therefore focuses on illustrating the implications for SME management, particularly those seeking to develop an environment that fosters efficiency and effectiveness through the facilitation of OCB in the workplace within Sub- Saharan Africa.

The chapter is structured as follows: next it discusses the theoretical orientation, including a model and the development of hypotheses, which is followed by a description of the research methods and results. It then gives conclusions and the limitations of this study and possible future research topics.

6.2 Theoretical Orientation

The study uses social exchange theory (SET) as a lens to examine engagement and OCB of employees in SMEs. SET contends that when employees and supervisors/managers develop good workplace relationships, a reciprocal arrangement develops that not only benefits the individuals involved, but also benefits the organization as a whole (Cole et al. 2007). Using SET as a theoretical lens, it is expected that an outcome of empowering less empowered employees will be that the employees will feel supported and therefore will develop a desire to give back to the organization. An environment that manifests high-quality workplace relationships will only be developed if members of the workplace adhere to the rules and norms of exchange (Cropanzano and Mitchell 2005). The rules and norms in this case are founded on the notion of reciprocity. Therefore, the greater the employees' trusting relationship with their colleagues and the organization, the greater will be their propensity to reciprocate with OCB, and the higher will be their perception of engaging in productive work that leads to effectiveness and efficiency in an enterprise/organization.

Literature on SET in a sociological context can be traced back to the seminal work of Blau (1964), who built on Gouldner's (1960) theory about the norm of reciprocity. The ideology of SET within an organizational environment suggests that employees may feel obligated to a colleague, a supervisor or their employing organization if they have benefited from an exchange with the actor/organization in question (Blau 1964). Social exchange can take place between two or more actors within the organization (Julian and Fiona 2005). If an employee perceives that others have benefited from an exchange and this benefit is not reciprocated within an appropriate time as perceived by the employee who provided the benefit, this may have a detrimental effect on the development of the workplace relationship (Cropanzano and Mitchell 2005; Lin and Huang 2010; Molm et al. 2007). The rules governing social exchange are quite ambiguous and depend on an organization's culture and the perceptions of the individuals involved in the exchange (De Clercq et al. 2009). Particularly, every actor within a workplace's social exchange network may have different perceptions about what is an appropriate level of reciprocation for a particular benefit/exchange and what is an appropriate amount of time in which to reciprocate the benefit (Dabos and Rousseau 2004).

According to SET, once favorable working conditions are set in a workplace, there are high chances that organizations will flourish as a result of employees' loyalty. This chapter therefore contends that an attempt by SME owners or supervisors to create a favorable organizational environment is likely to encourage a positive perception of fairness in their employees. As stated earlier, in favorable workplace conditions, employees will perceive high levels of empowerment from the organization's management and/or supervisors and therefore they will reciprocate by returning positive actions and thoughts about the organization (Brunetto et al. 2008). Consequently, due to this perceived reasonable treatment and in accordance with SET, SME employees' empowerment, engagement and trusting relationships will increase and organization citizenship behavior will improve in reciprocation. Therefore, SME employees' empowerment, engagement and trusting relationships will lead to citizenship behavior which will eventually lead to effectiveness and efficiency of the SME in the long term. In the following section we develop hypotheses that can test this relationship.

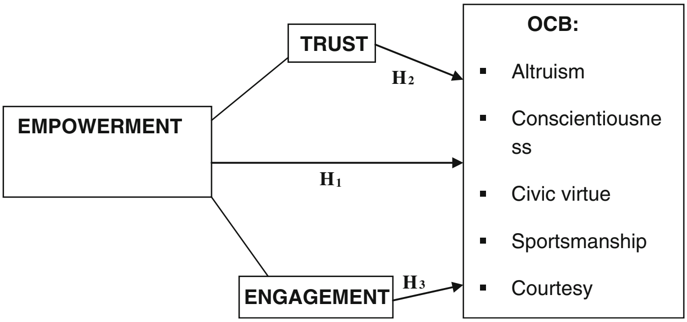

Fig. 6.1 Description of the model

6.2.1 Conceptual Framework

In the model discussed in this section employee empowerment refers to employees being equipped with work requirements, knowledge, skills and abilities to make their own decisions. Engagement refers to employee involvement and participation in the tasks and in decision making. Trust is seen as a result of employee supervision, an interpersonal relationship, which includes sharing appropriate information, allowing mutuality of influence, recognizing and rewarding good performance and not abusing the vulnerability of others. This has an impact on employee OCB (Fig. 6.1).

6.3 Hypotheses

SME employee empowerment and OCB: The perception of a high level of autonomy and its influence on work with the possibility of using one's competencies have a strong influence on the mobilization of discretionary behaviors of the employees (Ahearna et al. 2005).

Various studies have shown that employees who have a high degree of empowerment exhibit high levels of OCB. Empowered employees are able to do their work without unnecessary distractions (William and Hazer 2000). A study by Podsakoff et al. (2000) shows that individuals are more likely to go beyond their formal job requirements when they are empowered in their jobs intrinsically to complete tasks successfully. Watt and Shaffer (2005) propose that empowered employees are encouraged and enabled to exercise initiative and perform OCB.

The relationship between employee behavior and empowerment has been examined in studies like those by Moye and Henkin (2005). According to their study, once employees are empowered, they are much happier and are ready to do their best; the opposite is also true as employees who are not allowed to participate will have no intention of being more productive than they are because they will not believe that their managers will be satisfied. Moye and Henkin (2005) are also of the view that empowering employees will serve objectives leading to organizational effectiveness.

Employees perform OCB with greater frequency when they perceive that a fair means exists within the organization and that its representatives take informed decisions, that is, they follow procedural justice (Podsakoff et al. 2000; Taylor 2005). In other words, involving employees in decision making improves social relationships at the workplace and this social exchange influences OCB (Cardona et al. 2004). These positive social relationships can be seen as a result of empowering staff and involving them in the organizational decision making process. A study by Somech and Bogler (2004) found that there is a positive relationship between employee OCB and participation (empowering and involving employees in decision making). According to their study, once employees are empowered and involved in the process of setting ideas, they are likely to exhibit extra-role behavior at work (OCB).

This view is confirmed by Lappier's (2007) study which argues that to ensure their own success at achieving management objectives supervisors need to involve employees in daily decision making and other empowering roles in order to encourage them to exhibit extra-role behavior. Lappier further contends that a supervisor's abilities have a significant positive effect on his or her subordinate's ability to offer the supervisor extra-role efforts (that is, positive discretionary behavior).

Discretionary behavior refers to the choices that people at work often have on the way in which they do the job and the amount of effort, care, innovation and productive behavior that they display. It can be positive when people 'go the extra mile' to achieve a high level of performance. It can be negative when they exercise their discretion to slacken at their work (Purcell et al. 2003).

This discussion leads to the following hypothesis:

H1: *Empowerment has a positive impact on OCB.*

SME employee empowerment, trust and OCB: It is argued that empowerment leads to increased interpersonal trust between managers and employees and that trust-building practices such as procedural justice, fulfillment of promises, collaboration and open communication in turn result in strengthened organizational commitments (Nigan 2000). However, if staff members do not trust the supervisory policies within an organization, they are likely to lose respect for the policies and for their supervisors, thereby leading to the supervisory environment failing (Sias and Jablin 1995). On the other hand, strong interpersonal relationships within an organization ultimately facilitate its success (Shah 2000). When employees working in an organization have trusting relationships, they can lead to organizational effectiveness and sustainable organizational advantage (Fisher and White 2000; Nahapiet and Ghoshal 1998).

Trust reduces uncertainty about the future and the necessity for continually making provisions for the possibility of opportunistic behavior among employees. Trust lubricates the smooth, harmonious functioning of an organization by eliminating friction that specifies the behavior of employees who do not trust each other

(Kramer and Tyler 1996). Once trust exists among departmental members, it facilitates their vulnerability to exploitation by offering free services or information that may not be reciprocated (Munene et al. 2006).

Many authors have attempted to describe trust in supervisors, and according to Moye and Henkin (2005) trust in one's immediate supervisor is often described as interpersonal trust that stems from day-to-day interactions between the trustier and trustee. It adds to the creation of a safe environment, where employees get involved in OCB (Watt and Shaffer 2005). Therefore, we propose that trust mediates a relationship between empowerment and OCB.

Many researchers have developed the view that good performance involves an aspect of extra-role behavior and trust within the workplace (Erturk 2007; Turnispeed and Rassuri 2005). The supervisory climate is likely to influence subordinates' abilities to trust the supervisor and this has a direct influence on performance (Erturk 2007). Once the subordinates at work are convinced that trust exists at the workplace and that the supervisor reflects a personal degree of kindness towards other people with a genuine concern for their welfare, they are likely to be motivated to display extra-role behavior (Lappier 2007). We therefore hypothesize the following:

H2: *Trust mediates a relationship between empowerment and OCB.*

There is a close link between a high level of engagement and positive discretionary behavior (Armstrong 2006). Research cited by Incomes Data Services (IDS) (2007) identified two pre-requisites for genuine engagement to exist: firstly employees understanding their roles and where they fit in the wider organization and how these roles align with business objectives. Secondly, the emotional aspect, which has to do with how people feel about the organization, whether their work gives them a sense of personal accomplishment and how they relate to their manager.

According to Robinson et al. (2004) an engaged employee is someone who is positive about the job; believes in, and identifies with, the organization; works actively to make things better; treats others with respect, and helps colleagues to perform more effectively; can be relied upon, and goes beyond the requirements of the job; sees the bigger picture, even sometimes at personal cost; keeps up to date with developments in his or her field; and looks for, and is given opportunities to improve organizational performance. Engaged people at work are positive, interested in and even excited about their jobs and are prepared to go the extra mile to get them done to the best of their abilities (Armstrong 2006).

Employee engagement is a key driver of organizational effectiveness and workforce performance (Kiberu 2009). According to Smith and Edmonstone (2001), employee engagement is described as a combination of commitment to the organization and its values plus a willingness to help out colleagues. They further assert that employee engagement goes beyond job satisfaction and is not simply motivation and not about driving employees to work harder, but about providing the conditions under which they will work more effectively, or in other words, it is about releasing employee discretionary behavior. This facilitates OCB. We therefore expect the effects of empowerment on OCB to be mediated by engagement.

It is argued that engaged employees put discretionary efforts in their work and move beyond the minimum required to get a job done in the form of extra time, brainpower or energy. According to Vazirani (2007), 'Engaged' employees are builders, they want to know the desired expectations for they are naturally curious about their company and their place in it, they perform at consistently high levels, they want to use their talent and strengths at work every day and work with passion. They drive innovation and move their organization forward. Robinson et al. (2004) posit that engaged employees are aware of the business context and work with colleagues to improve their job performance for the benefit of the organization. They have positive attitudes towards the organization and its values. This leads to the following hypothesis:

H3: *Engagement mediates a relationship between empowerment and OCB.*

6.4 Methods and Data

6.4.1 Sample Size

The study was conducted in the two neighboring countries of Rwanda and Uganda, using self-administered questionnaires. Within 73 SMEs (Rwanda: 32 SMEs operating in the southern province; Uganda: 41 SMEs operating in the northern part), we found 545 supervisors and employees, making the sample size 545. Of these, 262 were from Rwanda, and 283 were from Uganda. Based on Krejcie and Morgan's (1970) sample size determination model, a sample of 376 supervisors and employees working in these SMEs was obtained (Table 6.1).

Simple random sampling techniques were used to get a sample of 376 persons (supervisors and employees).

Table 6.1 Sample determination

Country	Population	Sample size
Rwanda		
Employees	202	129
Supervisors	60	52
Sub-total	262	181
Uganda		
Employees	213	135
Supervisors	70	60
Sub-total	283	195
Grand total	545	376

6.4.2 Measures

The items in the questionnaires were linked to a 6-point Likert scale ranging from 'strongly agree' as a response of 6 to 'strongly disagree' as a response of 1. This helped respondents rate their answers accordingly. The measures included:

- Empowerment: This was measured using Spreitzer's (1995) meaning of competence, self-determination and impact, whose reliability and validity had been tested and found satisfactory in previous studies, for instance, in Ahearne et al. (2005). It was above 0.7 Cronebach's alpha coefficient.
- Trust: This was measured using Kramer and Tyler's (1996) 6-point Likert scale to capture dimensions such as reliability/dependability, honesty, competence, orientation and friendliness.
- Engagement: This was assessed using the instrument developed by Munene (2006) and Incomes Data Services (2007), covering rational, emotional and motivational engagement.
- OCB was measured using four dimensions of altruism, conscientiousness, sportsmanship and civic virtue as modified by Podsakoff et al. (1990).

6.4.3 Data Processing and Analysis

Data was collected using questionnaires. Descriptive and inferential statistics were produced with the help of SPSS. Descriptive statistics describe the sample using cross-tabulation. For inferential statistics, correlation was applied to establish relationships between the studied variables. Other statistical tools such as regression were also used to establish which variable had the greatest influence on the dependent variable.

Control Variables: Several control variables were included in the analysis. Firstly, we controlled for the size of the firm, because size is likely to influence an employee's ability to interact. *Size* is the log of the number of employees in the firm. Secondly, we controlled for the *age* of the firm by including the number of years since founding. Finally, we also controlled for the industry of the firm because the type of industry affects employees' needs.

6.4.4 Empowerment and OCB

The results reveal that there is a significant positive correlation relationship between empowerment and OCB ($r = 0.69^{**}$, $p < 0.01$). This implies that when employees are empowered they are more likely to exhibit more OCB (see Table 6.2).

Table 6.2 Descriptive statistics and correlations

Variable	Mean	SD	1	2	3	4	5	6	7	8
Value added	703.26	761.03								
Type	0.03	0.11	1							
Firm Size	2.29	0.54	0.64	1						
Firm Age	18.96	19.35	0.10	0.01	1					
Empowerment	0.70	1.22	–0.07	0.03	0.04	1				
Trust	0.60	1.12	0.41	–0.03	–0.06	0.84	1			
Engagement	0.13	0.34	0.36	–0.01	–0.07	0.78	0.72	1		
OCB1	–0.03	0.23	–0.21	0.29	0.01	0.69	0.59	0.66	1	
OCB2	0.41	0.49	–0.01	0.04	0.05	0.64	0.60	0.55	0.47	1

Note $n = 376$. Correlations greater than 0.04 are significant at $p < 0.05$; correlations greater than 0.05 are significant at $p < 0.01$. SD = standard deviation

Trust and OCB. The results show a positive correlation relationship between trust and OCB1 ($r = 0.59$**, $p < 0.01$) while OCB2 revealed a positive relationship ($r = 0.60$**, $p < 0.01$). This means that OCB is more likely to be exhibited when employees have trusting relationships.

Employee engagement and OCB. The results show a significant positive relationship between employee engagement and OCB ($r = 0.66$**, $p < 0.01$) for OCB1 and OCB2 ($R = 0.55$**, $P < 0.01$). This implies that the higher the employee engagement the more they exhibit OCB.

6.4.5 *Regression Analysis*

Regression was used to determine the effects of independent variables on the dependent variable. That is, the effect of empowerment, trust and employee engagement on OCB as shown in Table 6.3.

Table 6.3 Regression analysis of employees' views on OCB

	Un-Standardized Coefficients		Standardized Coefficients	T	Sig					
	B	Std error	Beta			R	R Sq	Adj R sq	F	Sig
(Constant)	1.630	0.192		11.756	0.00	0.713	0.508	0.502	85.421	0.00
Empowerment	0.319	0.090	0.448	4.844	0.00					
Trust	0.181	0.070	–0.015	–0.176	0.86					
Engagement	0.082	0.072	0.319	4.380	0.00					

6.4.6 Dependent Variable: Self-reported OCB

Regression on employees' self-report on OCB indicates a prediction up to 50.2 % of the dependent variable (adjusted $r = 0.502$). The model was significant (sig. f change = 0.00). Unlike in the supervisors' views, employee engagement was significant at the level of 0.00 and trust was insignificant at Beta = −0.015, sig. = 0.86. While in the case of supervisors' view, empowerment was significant (Beta = 0.448, sig. = 0.00). This is an indication that empowerment was a constant since it was significant in both regressions (Table 6.4).

6.4.7 Dependent Variable: Organizational Citizenship Behavior by Supervisors

Supervisors' ratings on the dependent variable OCB indicate that empowerment, trust and employee engagement significantly predicted up to 40.9 % of the dependent variable (adjusted $r = 0.409$). The regression model was significant (sig. f change = 0.00). The most significant predictor of OCB were empowerment (Beta = 0.359, sig. = 0.00) and trust (Beta = 0.236, sig. = 0.01) while employee engagement (Beta = 0.090, sig. = 0.26) was insignificant. This implies that according to supervisors' ratings empowerment and trust affected the level of OCB. But according to employees' self-rating it was not engagement but rather trust that was insignificant. The results of both regression analyses indicate that empowerment is the only constant variable.

The results in Table 6.5 show that the effect of empowerment on trust is positive and significant. Model 3 tested the mediation effect of trust and engagement between empowerment and OCB relationship and these results support hypotheses 2 and 3. Once more, it is important to note that model 1 contains a test of the direct effect of empowerment on OCB. The direct effect of empowerment on OCB was statistically significant. This result supports hypothesis 1.

To summarize, our findings show that empowerment, trust and employee engagement predict 40.9 % of the dependent variable (OCB), with empowerment

Table 6.4 Regression analysis of supervisors' views on employees' OCB

	Un-Standardized Coefficients		Standardized Coefficients	T	Sig					
	B	Std error	Beta			R	R Sq	Adj R sq	F	Sig
(Constant)	1.630	0.192		8.469	0.00	0.645	0.416	0.409	58.859	0.00
Empowerment	0.319	0.090	0.359	3.563	0.00					
Trust	0.181	0.070	0.236	2.586	0.01					
Engagement	0.082	0.072	0.090	1.136	0.26					

Table 6.5 Regression of the mediation model

Mediation test			
	Model 1	Model 2	Model 3
	Value added	Trust	Engagement
Intercept	1,630.87**	1.63**	0.19**
Type	41.26**	0.03	0.05**
Firm Size	627.14**	0.06**	0.56**
Firm age	–0.167	0.00	0.01
Empowerment	0.71**	0.426	0.323
OCB1	1.23	0.61**	0.68**
OCB2	1.58	0.58**	0.54**
Trust	0.07**		
Engagement	0.84**		
F	84.62**	67.29**	63.45**
R^2	51.30 %	19.89 %	19.98

Note * $p < 0.05$; ** $p < 0.01$

and trust as significant predictors of OCB according to supervisors' views. However, the result of employees' views show prediction up to 50.2 % with empowerment and engagement as significant predictors. We therefore contend that empowerment can directly affect OCB even though trust and engagement partially mediate this relationship.

6.5 Discussion and Conclusion

Relationship between empowerment and OCB. From both the regression results it can be concluded that empowerment strongly impacts positively on OCB, it is a constant variable because empowerment is structural and psychological, that is, employees at all levels (either supervisors or subordinates) understand their roles and also have mental effects on individuals. Therefore, the environment in which SME employees work affects the level of exhibition of OCB. Empowerment can be socially exchanged between supervisors and employees and this influences performance because employees will want to be at work at all times, perform their tasks and even go the extra mile. This is in line with various prior studies, such as those by William and Hazer (2000), Podsakoff et al. (2000) and Watt and Shaffer (2005).

Trust mediates the empowerment/OCB relationship. In light of the findings from the supervisors' regression analysis we can conclude that trust is significantly correlated with OCB. A good, trusting relationship promotes employees' OCB. This is in line with Minsky's (2002) findings which revealed that one possible cause of the lack of stronger results regarding positive work outcomes in line with performance might be due to lack of trust between supervisors and employees.

However, our results from the regression analysis on employees' views indicate an insignificant relationship between the two. According to employees, trust is inborn and a silent variable triggered by a relationship which is not important for them to exhibit OCB. This is in line with Dienesch and Liden's (1986) findings who contend that it is difficult to separate trust from perception of work relationships at the workplace. Also Wayne et al. (1997) discovered that the relationship between supervisors and employees at the workplace will directly influence trust perception in the management within the organization. This is likely to have an impact on employee beliefs and trust in the management's ability to fulfill its obligations of recognizing and rewarding desired employee attitudes and behavior. This unique finding needs further investigation to assess why conflicting views between supervisors and employees exist.

Engagement mediates the empowerment/OCB relationship. From the findings of employees' regression it can be concluded that employee engagement has an influence on OCB. An engagement environment in which staff members in small and medium enterprises work has a direct link with their OCB. A positive environment leads to OCB; the opposite is also true. However, the regression analysis on supervisors' views indicates an insignificant relationship between the two. This is in line with Armstrong's (2009) views that people can be engaged with their work even when they are not committed to their organization as long as it gives them the opportunity to use and develop their skills. For example, some knowledge workers like researchers may be mainly interested in the research facilities and opportunities to make a name for themselves. They therefore join and stay with an organization only if it gives them the opportunities that they seek. However, as per employees' views we can conclude that SME managers should provide an engaging environment for employees to exhibit OCB. However, engagement is not important for supervisors. Hence, further investigation is needed into the possible reasons for why there are conflicting views.

Finally, it is evident from our findings that employees act according to the SET. It appears that once employees perceive a reasonable treatment from their organization it becomes easier for them to reciprocate this behavior, enhancing their OCB and in turn enhancing organizational effectiveness. Brunetto et al. (2008) suggest that under favorable workplace conditions, employees will perceive high levels of empowerment from the organization's management and/or supervisors and therefore they will reciprocate by returning positive actions and thoughts about the organization. However, our findings show that supervisors' attitude does not match with this theory as they do not want to reciprocate in any way. This is likely to manifest a low quality workplace relationship. The issues of disempowerment, absenteeism and early departure from work continue to characterize SMEs. These issues emanate from supervisors' attitude and a sense of insecurity in more empowered employees because they think that they might take their positions. This is in line with Cropanzano and Mitchell's (2005) findings which show that an environment that is ideal and manifests high-quality workplace relationships can only be developed if members of the workplace adhere to the rules and norms of exchange.

6.6 Contribution

This chapter extended the SET to explain the human resource management phenomena, in particular it assessed how trusted relationships associated with empowerment influence OCB in the workplace. In addition, it also assessed how employee engagement associated empowerment influences OCB in the workplace in the African SMEs context. Secondly, the chapter also investigated current management challenges for SMEs in the Sub-Saharan region which are often overlooked by researchers focusing on the SME sector.

Further, according to the findings of the study trust mediates empowerment and OCB, and engagement mediates the empowerment and OCB relationship. It is imperative that SME managers and/or owners continuously monitor the level of empowerment, trust and engagement climate if they want their employees to exhibit OCB thereby providing an enabling environment that fosters efficiency and effectiveness through the facilitation of OCB.

Last but not the least the findings also reveal different views between supervisors and employees with regard to trust and OCB as well as the relationship between engagement and OCB. Employees believe that once an interpersonal relationship is manifested and it exists at the workplace, this will trigger trust, and OCB is likely to be reciprocated. Their views are supported by the findings of Wayne et al. (1997) and Dienesch and Liden (1986). However, supervisors view trust as separate from interpersonal relationships; for them, employees have to do the tasks assigned to them and report to their supervisors. They cannot doubt their superiors because a supervisor is always right. Therefore, interpersonal relationships do not matter as long as supervisors are feared. This remains a challenge in the management of SMEs in Sub-Saharan Africa.

On engagement and OCB, employees believe that once they are engaged in work it means they are appreciated, respected and the organization is therefore helping them grow. This gives them a sense of personal accomplishment and a deeper meaning and they are likely to reciprocate with OCB. Nevertheless, supervisors believe that engagement does not matter.

6.7 Limitations and Future Research

The limitations of this chapter provide ideas for further research. We employed the construct of OCB with four dimensions—altruism, conscientiousness, sportsmanship and civic virtue as modified by Podsakoff et al. (1990). Further research can add different national culture-related dimensions on OCB among SME employees.

This chapter only focused on the link between employee empowerment, trust, engagement and OCB for SMEs from an angle of quantitative research. Qualitative research can also explore the relationships found in this study. Future studies can also examine the relationship between empowerment, retention, vertical promotion and performance.

The findings in this chapter reveal different views concerning relationships between trust and OCB, together with a relationship between engagement and OCB for SMEs in only two countries. Future research could focus on exploring this topic in various African nations and across different types of organizations.

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Chapter 7
The Challenge of Developing a Sustainable Hybrid Organization: The Case of Greenpop

Alina Greinert and Duncan Levinsohn

Abstract This chapter introduces readers to the topics of social entrepreneurship and hybridity of social and financial values. A South African case study is used to illustrate the particular challenges faced by social entrepreneurs in a sub-Saharan context. The emergence of the Greenpop as a social enterprise is described, and the strategies developed by its founders to ensure effectiveness and survival are identified. Particular attention is paid to how a business model was developed to ensure financial sustainability, while enabling the venture to create social value, to the way in which founders promote the distinctiveness of their enterprise among other social ventures, as well as to the factors associated with venture success.

Keywords Social enterprise · Green business · Sustainability · Hybrid venture · South Africa

7.1 Introduction

Recent decades have seen a dramatic increase in enterprise-related initiatives that address issues of social or environmental sustainability. Traditional, for-profit businesses are increasingly expected to engage in formal programs of corporate responsibility (CR), or corporate *social* responsibility (CSR) (Blowfield and Murray 2011). Critics of CSR, however, argue that despite a new emphasis on sustainability in business environments, the steps being taken are largely incremental. In other words, given the size of the environmental, social challenges faced by society and the contribution of shareholder-oriented capitalism to these issues, CSR activities

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are carried out on too small a scale to tackle firms' 'systemic unsustainability' (Visser 2010: 11). Consequently, scholars suggest that alternative forms of enterprises may offer more effective solutions. Alternatives that have been explored include enterprises that prioritize the pursuit of social value using 'business-like' practices (social entrepreneurship) and firms that attempt to strike an even balance between financial, social, and environmental values (sustainability entrepreneurship). Academic research into both these fields is, however, nascent and is based largely on the work of North American and European scholars (Levinsohn 2013). Studies in emerging economies such as those by Visser (2011) and Austin et al. (2006) are relatively rare, despite a call by scholars like Welter (2011) for accounts that acknowledge the significant influence of context. This means that there is a need for studies that discuss social or sustainability entrepreneurship in non-European—or non-North American—environments such as Africa. Consequently, this chapter employs a South African enterprise (Greenpop) as an example of *social* entrepreneurship in the context of an emerging economy.

Besides the usefulness of discussing social entrepreneurship in a less familiar national and cultural context, this chapter also discusses the emergence of strategic aspects of social entrepreneurial practice, with a particular emphasis on *hybridity*. Battilana and Lee (2014) use this term to refer to balancing of two distinct logics by social enterprises: logics that traditionally prioritize either the creation of financial value *or* social and environmental value. Other scholars (e.g., Haigh et al. 2015; Pache and Santos 2013) also note that the coexistence of distinct operational logics is something that characterizes social enterprises. Nonetheless, few publications discuss the *process* by which social entrepreneurs come to terms with these logics and achieve an effective balance. For this reason, in our discussion of the Greenpop case, particular attention is devoted to the ways in which managers develop strategies for managing both the financial and social 'logics' of the young enterprise. By addressing these issues, this chapter not only contributes academic value (given the scarcity of studies that address the process of strategy development in social enterprises), but also provides practical insights. Social entrepreneurs and those who advise them can gain useful insights not only into specific issues that need to be addressed in developing effective social enterprises, but also in the ways in which ventures can engage with these issues.

This chapter is organized as follows: It first provides a short introduction to the fields of social and sustainability entrepreneurship—two closely related fields that are united in their emphasis on the issues of hybridity. Subsequently, the discussion narrows to highlight social entrepreneurship in particular and takes up the case of Greenpop. The development of this South African social venture is described and discussed, and its example is used to suggest ways in which social enterprises cultivate effective strategies for managing their hybrid identities and enhancing innovations. The influence of context on the development of social enterprises is also commented on briefly.

7.1.1 A Social and Sustainability Enterprise and Hybridity

In contrast to instrumental forms of corporate responsibility which tend to emphasize shareholders' profits while maintaining a 'license to operate' (Donaldson and Dunfee 1999), social and sustainability entrepreneurs either prioritize the creation of social value (Mair and Martí 2006), or place an *equal* emphasis on both financial value and social value (Gibbs 2009; Tilley and Young 2009). In this context, 'social' may either imply a purpose oriented toward human needs or the environment or a combination of the two (SEC 2010). What is important to note, however, is our distinction between these three basic types of entrepreneurships. 'Traditional' entrepreneurship tends to prioritize the well-being or financial gain of an individual entrepreneur, and despite evidence suggesting that entrepreneurs are motivated by more than just money, this type of entrepreneur is said to prioritize a single 'bottom line' (profit). 'Sustainability' entrepreneurship on the other hand attempts to create value—or to achieve sustainability—in at least two areas simultaneously (the financial side and either social or environmental sustainability). Finally, 'social' entrepreneurship is depicted as prioritizing social value *over* financial value, even if financial sustainability is still emphasized. As will be seen, the tree planting enterprise Greenpop while defining itself as a social enterprise also shares some of the characteristics associated with 'sustainability' enterprises.

7.1.2 Sustainability Entrepreneurship

In recent years, business scholars have increasingly discussed the role played by business in sustainable development. These discussions have led to proposals for business strategies that address what Elkington (1997) terms the 'triple bottom line' (that is, demand for financial, social, and environmental sustainability). As a result, scholars have put forward ideas that discuss different aspects of what can be termed as a 'synergy-oriented' enterprise. Under this category, several apparently unrelated business strategies may be grouped together. What these approaches have in common is an unwillingness to prioritize one aspect of sustainability over another. Instead, firms pursue value creation in several areas simultaneously. This is based on the idea that value creation in one area need not exclude the creation of value at another point. Indeed, it may even enhance it. One well-known example of a synergistic approach to enterprise is Porter and Kramer's (2011) concept of 'shared value'. However, many other concepts such as 'inclusive business' and 'base-of-the-pyramid strategies' clearly operate under a similar logic (London and Hart 2010). An example of how synergy is pursued in the field of inclusive business is Coca-Cola's strategy of adopting a labor-intensive distribution model in Ethiopia and Tanzania (Nelson et al. 2009). This case involves the corporation pursuing acceptable levels of profit, while at the same time generating income and employment for disadvantaged individuals.

In the field of entrepreneurship, the approach that most clearly adopts a 'synergistic' approach to value creation is that of 'sustainability entrepreneurship.' This term was recommended by the 2007 World Symposium on Sustainable Entrepreneurship (Parrish 2008), but some scholars have also used other terms such as 'sustainable entrepreneurship' (Schaltegger and Wagner 2008) and 'sustainopreneurship' (Abrahamsson 2007). Scholars who discuss this type of entrepreneurship typically do so with reference to the most cited documents on sustainable development (the WCED report 'Our common future' and the NRC follow-up 'Our common journey') (Brundtland and Khalid 1987; National Research Council 1999). Consequently, scholars formally propose a form of entrepreneurship that simultaneously pursues value in *all three* areas traditionally associated with sustainability. This logic is most clearly spelled out by scholars such as Young and Tilley (2006). They associate sustainability entrepreneurship with a shift in emphasis from 'efficiency' (using less resources or doing less harm) toward 'effectiveness' (having zero—or positive—social, and/or environmental impact). Furthermore, they suggest that firms need to pursue effectiveness at all three 'bottom lines' simultaneously.

Most scholars of sustainability entrepreneurship agree with the ideal proposed by Young and Tilley (2006) (that is, the idea that this category of entrepreneurs should place an equal emphasis on the pursuit of value at all three 'bottom lines'). Nonetheless, in practice, scholars tend to emphasize the environmental side of sustainability over the other two (Levinsohn 2013). This tendency is exemplified by Schaper's (2005) chapter in his edited book about 'green' entrepreneurship in which the term 'ecopreneurship' is used interchangeably with 'sustainable entrepreneurship.' Gibbs (2009) also uses these terms to refer to the same phenomenon ('sustainable entrepreneurs or ecopreneurs').

Publications in the field of sustainability entrepreneurship tend to emphasize one or two recurring themes. The first of these centers on the role of an individual in determining venture values and identity and is termed the 'psychological perspective' by Shepherd and Patzelt (2011). Examples of this perspective include Kuckertz and Wagner (2009), Schlange (2006, 2009), and Krueger et al. (2011), who use the ideas of entrepreneurial cognition to discuss the impact of experience and mental models on the intentions of sustainability entrepreneurs. Choi and Gray (2008) on the other hand use the terms 'mission-oriented' and 'values-oriented' to describe the emphases of the 21 entrepreneurs they studied. However, Hockerts and Wüstenhagen (2010) warn that this 'pronounced value-based approach' may be compromised as an enterprise grows—a possibility that echoes the phenomenon of 'mission drift' that scholars of social entrepreneurship often discuss.

In addition to the emphasis on the individual as a key factor in sustainability entrepreneurship, scholars also discuss the concept of opportunity. Several publications portray opportunities from the perspective of 'classical' entrepreneurship theory and suggest that opportunities for sustainability entrepreneurship are a result of market imperfections. Cohen and Winn (2007) identify four types of opportunities that arise from such imperfections and which entrepreneurs may take advantage of inefficient firms, the existence of externalities, flawed pricing mechanisms, and imperfectly distributed information. Dean and McMullen (2007) adopt a similar perspective and argue that sustainability entrepreneurs typically address five distinct types of opportunities (Coasian, institutional, market appropriating, political, and informational). In contrast to Cohen and Winn (2007) who restrict their discussion of opportunity to the traditional, commercial realm of business, Dean and McMullen (2007), Klein Woolthuis (2010), and Patzelt and Shepherd (2011) argue that sustainability entrepreneurship implies an *expansion* of the concepts of entrepreneurship and opportunity. By this, they refer to the possibility of entrepreneurs addressing, for example, institutional factors that limit societal shifts toward sustainable development (Gibbs 2009). These factors can also include the transformation of traditional understandings of value (Cohen et al. 2008) or of organizational processes (Parrish 2010; Seelos and Mair 2005). Some scholars even suggest that sustainability entrepreneurs are key actors in enabling a society to achieve a 'paradigmatic change' (Hofstra 2007; Johnstone and Lionais 2004).

Discussions of opportunity in sustainability entrepreneurship at times overlap with a third theme—'innovation'—addressed by scholars. Scholars who frame sustainability entrepreneurship as innovation tend to adopt either a 'micro' or a 'macro' perspective. Studies that adopt a 'micro' perspective include Gerlach (2003) and Bos-Brouwers (2010), with the latter's work particularly useful in identifying seven factors that affect sustainability innovation (duty, skilled personnel, suppliers, trade associations, degree of formalization, customers, and national governmental institutions). Scholars who discuss sustainability entrepreneurship from a 'macro' perspective include Schaltegger and Wagner (2011) who identify the different innovation roles adopted by firms in the 'sustainability arena' according to size.

7.1.3 Social Entrepreneurship and Hybridity

First impressions of the field of social entrepreneurship suggest that it is very similar to sustainability entrepreneurship. Thompson (2008), for example, argues that a characteristic of social enterprises is their pursuit of social value through the trading of goods or services and the existence of a double or triple bottom line. Other scholars, however, stress the idea that social purpose is prioritized over other venture emphases. For example, Murphy and Coombes (2009) and Zahra et al. (2009) suggest that social enterprises are ventures that promote a social purpose. Other scholars define a social venture as one that engages in commercial activities in order to sustain its mission (Hockerts 2006). Hockerts' suggestion reflects a school of thought labeled the 'social enterprise school' by Dees and Anderson (2003) and subsequently by Bacq and Janssen (2011). These scholars suggest that definitions of social entrepreneurship tend to emphasize different aspects, depending on their cultural and geographical context. Consequently, they advocate a distinction between a 'social enterprise school' (that includes nonprofit organizations that engage in business activities in order to finance their social missions) and a 'social innovation' school (in which there must be a clear link between the product or service of the enterprise and its social mission). Bacq and Janssen (2011) extend Dees and Anderson's (2003) work by noting the existence of a 'European' emphasis within literature, which highlights the central role of the organization itself in creating value for a particular community or stakeholder group.

This discussion illustrates one of the challenges of the social entrepreneurship field, namely the lack of a common definition of the phenomenon. Aygören (2014) notes, for example, that her review of around 150 articles yielded 40 distinct definitions of social entrepreneurship and that, consequently, scholarship continues to be 'highly fragmented.' This fragmentation implies that any discussion of social entrepreneurship needs to clarify what the author(s) mean when they use the term. Consequently, and building on our earlier discussion on the importance of taking context into account in discussions of entrepreneurship, we make use of a South African scholar's definition of social enterprise: 'A social enterprise's primary objective is to ameliorate social problems through a financially sustainable business model where surpluses (if any) are mainly reinvested for that purpose' (Steinman 2010: 40).

In Aygören's (2014) extensive survey of social entrepreneurship literature, she discusses a variety of themes emphasized by scholars. After surveying the historical development of the field, Aygören finds that social enterprise can be viewed first of all from a governmental perspective. This emphasis notes the societal role of social entrepreneurship in ameliorating issues of poverty or exclusion and is often associated with enterprises that involve micro-credit and similar initiatives (Peredo and McLean 2006). In common with sustainability entrepreneurship scholarship, substantial attention is also paid to the role of an individual social entrepreneur, and scholars have discussed the motivations of social entrepreneurs (Spear 2006), their characteristics (Alvord et al. 2004; Zahra et al. 2009), the skills they tend to exhibit, and their performance (Sharir and Lerner 2006). Other scholars discuss the social embeddedness of social entrepreneurs (Williams 2007) and discuss the phenomenon from a gender perspective (Aygören 2014; Datta and Gailey 2012). Other prominent emphases in the social entrepreneurship scholarship include discussions of organizational (Neck et al. 2009; Sharir and Lerner 2006) and institutional factors (Mair and Marti 2009) as well as studies that examine the outcomes of (and ways of measuring) social entrepreneurial activity (Grimes 2010; Zahra et al. 2009).

Two scholarly themes that are important for the purposes of this chapter are those that focus on process and hybridity. Aygören (2014) suggests that relatively few process studies have been done in the social entrepreneurship field. She does, however, note that the few studies that exist tend to discuss issues of identifying opportunity, management of innovation and hybridity and organizational form. Dorado (2006) discusses the differentiation of processes in traditional entrepreneurship from those of social entrepreneurship. She argues that social entrepreneurs are more dependent on their knowledge and backgrounds with regard to identifying opportunities. In other words, they are primarily reliant on being familiar with a particular social challenge in their recognition and development of opportunity. She also proposes that social enterprises are different from traditional ventures with regard to the way in which they reason about external funds. Social entrepreneurs tend to emphasize the impact and effectiveness of their activities (justifying cost), while traditional entrepreneurs focus more on indicators of financial sustainability.

Chell (2007) also stresses the role of financial factors in the social entrepreneurial process and claims that scholars have traditionally analyzed social ventures from the perspective of nonprofit scholarship (highlighting a dependence on grants and 'non-entrepreneurial' managers). She proposes that future studies need to adopt a more entrepreneurial perspective, focusing among other things, on the importance of financial sustainability and innovative behavior for a social enterprise. Guclu et al. (2002) echo Dorado's emphasis on the role of social entrepreneurs' backgrounds in the development of opportunity and suggest that the social entrepreneurial process involves an interplay of a 'social need' and the 'social assets' of an entrepreneur. These scholars go on to propose a model of the opportunity development process, noting that it depends on a 'how can they?' rather than on a 'can they?' logic. The process conceptualized by Guclu et al. (2002) creates opportunities by developing not only an effective model for change ('social impact theory'), but also an effective interplay between an operational and a resource strategy.

The process depicted by Chell (2007) involving a move from a nonprofit organization characterized by grant-dependency, to that of a self-sustaining social enterprise, is one that many scholars associate with *hybridity*. Hybridity is a term originally associated with organizations in general (and not specifically with social enterprises). Scholars suggest that hybridity typically occurs when managers are required to handle multiple organizational identities and multiple organizational forms (Kraatz and Block 2008; Pache and Santos 2013). However, Battilana and Lee (2014) suggest that social enterprises offer unique contexts for the study of the characteristics, challenges, and opportunities inherent in these 'multiplicities.' To be more specific, scholars suggest that social enterprises are inherently associated with issues of hybridity, given that they mix firstly identities traditionally associated with either the business or nonprofit world and furthermore organizational forms from both these contexts.

The ability to handle these multiple logics within an organization is defined as ambidexterity (O'Reilly and Tushman 2013; Raisch et al. 2009). Drawing on March (1991), Gibson and Birkinshaw (2004) suggest that ambidexterity is the ability to demonstrate alignment and adaptability simultaneously. In organizations, alignment refers to a situation in which individuals and groups work together in order to achieve a common goal. Adaptability on the other hand relates to an organization's ability to rapidly reorganize its activities to meet changing demands in its environment. The two emphases (on stability and continuity on the one hand, and flexibility and change on the other hand) are in tension, and the management of the two involves a paradox (Jay 2013). More clearly relevant to the entrepreneurial context is O'Reilly and Tushman's (2013) suggestion that ambidexterity also involves an organization's ability to both explore and exploit business opportunities simultaneously. Battilana and Lee (2014) suggest that an essential aspect of hybridity (and therefore ambidexterity) in social entrepreneurship relates to the simultaneous advancement of both a social mission and commercial performance. If social enterprises are to be successful, they must adapt their organizational identity, structure, processes, and business models to both areas (implying ambidexterity). If they do not, they run the risk of provoking significant tension in relation to both internal and external stakeholders, tension that can be expected to make them less effective or even to fail (Fiol et al. 2009).

A further challenge faced by social enterprises is the risk of 'mission drift,' by which scholars refer to the risk of an organization losing its *raison d'être* as it attempts to balance the dual logic of social and financial requirements. Due to the limited resources upon which both business and social activities call, trade-offs regarding social and commercial are often necessary. Indeed, Meyer and Scott (1991) suggest that at times, only one logic—either the social or business emphasis—tends to prevail over time. Managing the dual logic of hybridity is further complicated in terms of the organizational forms that social enterprises depend on in order to operate legally and legitimately in society. Frequently, social enterprises do not fit 'cleanly' into the organizational forms available in a particular context and may even violate the borders of established social forms for business and charity (Reuf and Patterson 2009). Consequently, hybridity is also associated with difficult choices with regard to the process of selecting and acquiring official legal incorporation (Battilana and Lee 2014). For example, only nonprofit organizations that do not distribute retained earnings are typically permitted to benefit from tax-free charitable donations (Salamon and Anheier 1997; Simon et al. 2006). Similarly, and in contrast to nonprofit organizations, traditional enterprises are able to raise financial capital through selling equity. As a result, in many societies, organizations are rewarded by regulatory authorities if they correspond to 'ideal' institutional types, but 'punished' if they adopt forms that combine organizational forms associated with the creation of both financial and social values. Even though new legal forms have emerged to create new opportunities for social enterprises such as benefit corporations in the USA and community interest companies (CICs) in the UK, these innovations are still in an early stage and are not always widely accepted or recognized (Defourny and Nyssens 2008). Consequently, social enterprises are often forced to make difficult trade-offs. In the South African context in which Greenpop operates, for example, some alternative legal forms exist (International Labour Organization 2011), but knowledge about them does not appear to have been widely disseminated. It is also unclear whether the forms available are appropriate to the activities of ventures like Greenpop. This lack of knowledge *or* the inappropriateness of legal forms for venture activities may force enterprises either to adopt a nonprofit or for-profit identity, or to create some combination of the two. The process by which managers develop and implement strategies to cope with this and other consequences of hybridity is a key focus in this chapter. It is also one of the key themes in the Greenpop case study, which is introduced in the following section.

7.2 The Case of Greenpop

Greenpop is an award-winning, tree planting social enterprise that is based in Cape Town, South Africa. Since its foundation in 2010, Greenpop has planted 60,000 indigenous as well as fruit trees. The enterprise's vision is to create meaningful experiences by organizing tree-planting days in under-greened communities within the Western Cape and by arranging larger tree-planting events and ecoawareness activities in southern Africa.

7.2.1 Getting Started

Greenpop was born in September 2010, when founder Misha Teasdale decided to initiate a project to plant 1,000 trees in under-greened, underprivileged communities in the Western Cape area of South Africa in order to compensate for his own carbon footprint as a jet-setting documentary filmmaker. Despite not having any previous knowledge of tree planting, Teasdale wanted to have a positive impact and to become personally involved, instead of just donating money.

The tree planting project was successful and generated not only a considerable amount of support and enthusiasm, but also insights into the need and potential for many more 'activations'[1] at the crossroads of ecology and community regeneration. Consequently, Teasdale decided to team up with his friends and flatmates Lauren O'Donnell and Jeremy Hewitt and to turn the one-off project into a social enterprise. Soon afterward, Teasdale heard about a competition for social enterprises run by the Western Cape Department of Economic Development. In order to compete, the venture team had not only to complete a business plan, but also to create the new enterprise from scratch within a very short period. Says O'Donnell:

> That's how we started. We were one of the eight winners and then they rated us as having the best business plan for social enterprises in South Africa. That's what pushed us to really start. Because before we entered, we had no registration - we had nothing! It was just an idea. So [at that point] I suppose we sort of started thinking strategically.

The three founders ran the business out of their shared apartment and as there were no boundaries between private life and the life of the enterprise, a family-like culture emerged within the venture. This culture persisted during the coming years, as Greenpop continued to grow developing organically by recruiting interns, developing partnerships, and helping people become involved in the enterprise and in projects as volunteers and partners.

Despite the initial success of the enterprise, in 2013, Teasdale and O'Donnell realized that something had to change in order to keep the enterprise running. Hewitt had decided to focus on his music career, but O'Donnell and Teasdale were keen to continue with Greenpop's development. As a result, they moved into another flat and turned their former apartment into the Greenpop office. At the same time, they also decided to formalize the venture's structure in order to run the

[1]Greenpop managers use the term 'activations' to refer to venture activities that involve not only actions taken by enterprise staff, but actions generated by their engagement among targeted communities or other stakeholders.

business more efficiently. This was done through the creation of functional areas and more clearly defined job roles and by the formal distribution of responsibilities, resulting in a major change in the way the enterprise had been run: 'We never used to have role descriptions. If somebody asked what Misha and I did, we'd have had no answer. And even our staff didn't have a job description. It was so organic!', says O'Donnell.

7.2.2 *Organizing for Impact*

Today, Greenpop is run by O'Donnell and Teasdale as managing director and 'Tree-E-O.' The venture also employs 10 permanent staff members and regularly recruits short-term interns. Three of their employees have been given leading roles as functional area heads for the three main operational aspects of the venture: 'Events,' 'Planting and Sustainability,' and 'Communication and Partnership.'

Since its foundation in 2010, Greenpop has grown steadily. What started out as a tree planting project has become something bigger: the venture's 'products' and 'services' not only focus on planting trees, but also focus on the social mission of the venture: 'Greenpop is on a mission to (re)connect people with our planet and each other.'[2]

Currently, Greenpop's impact is created through two main programs, each with its own distinctive business model: (1) The Cape Town Urban Greening Program and (2) Reforestation Festivals and Green Events.

(A) The Cape Town Urban Greening Program

Within the Urban Greening Program, companies, groups, and individuals who want to invest in a greener future donate money to Greenpop. The venture uses the money to plant trees in specific underprivileged areas around Cape Town and the Western Cape. Common locations include schools, crèches, orphanages, old-age homes, and community centers in townships. In addition to planting trees, Greenpop also seeks to create value in three other areas:

(1) By the active involvement of people during its 'planting days';
(2) By enhancing well-being in communities through social and ecological benefits associated with urban greening; and
(3) By means of environmental education, whereby beneficiaries are taught about the importance of trees and assisted in taking care/ownership of them.

In past years, Greenpop has planted over 13,000 trees at over 400 planting events across the greater Cape Town area under the Urban Greening Program. It has involved about 13,000 individuals with its entertaining and engaging environmentalism.

[2]From the 'home' page of the venture's Web site: http://www.greenpop.org/.

Table 7.1 Greenpop's Reforestation Festivals and urban greening program

Reforestation project/event	Location	Year project initiated	Trees planted since launch	Trees planted in 2015
Platbos	Platbos Forest • Western Cape	2011	26,344	8,001
Hogsback	Hogsback • Eastern Cape	2014	4,617	1,217
Zambia Festival of Action	Livingstone • Zambia	2012	13,698	1,753
Cape Town Urban Greening Program and other projects	Various	2010	14,753	893
Total			59,412	11,864

(B) Reforestation Festivals and Green Events.

Besides the planting days, Greenpop generates income by hosting ecoawareness events such as the annual Reforestation Festivals in Platbos (South Africa's southernmost indigenous forest), Hogsback (an area heavily impacted by deforestation in South Africa), and Livingstone (Zambia). The aim of these festivals is to reforest ancient forests, to increase biodiversity, and to spread awareness about the forests and the need to preserve them while at the same time encouraging local and international volunteers to become active citizens.

As a result of these Reforestation Festivals, Greenpop has been able to plant over 26,000 trees in the Platbos forest, 4,600 trees in Hogsback, and 13,600 trees in Livingstone at around 65 different sites (see Table 7.1). In addition to these festivals, Greenpop also runs various green ecoawareness events. For instance, the Cool as Folk party takes place in Cape Town and Johannesburg and focuses on creativity, collaboration, and celebrating the planet. It includes concerts, art exhibitions, and organized cycles/walks to the event. Through these events, Greenpop aims to encourage a 'revolution of getting active—and not anxious' in order to create a prosperous and sustainable future. At these fund-raising events, participants are encouraged to 'party for the planet' and to join the 'treevolution.'

7.3 The Building Blocks of Greenpop's Social Impact

Despite the fact that Greenpop regards itself primarily as a tree planting organization, O'Donnell notes that there is more to their mission than ecology. She suggests that the trees themselves have a symbolic value for the venture and its stakeholders:

> For us, the tree is a way to connect people to the planet and to each other—that is the social element. It is about uplifting people through planting trees, educating them about their environment, connecting them to each other, and connecting different groups of people regardless of age, race, income stream, or country of origin. We are creating a social bridge.

In view of this understanding, it is important to realize that although Greenpop's activities can be broadly categorized according to the two main business models outlined earlier, at the operational level, Greenpop pursues its social mission in four main ways:

- By organizing planting days, tree planting festivals, and ecoawareness events, Greenpop's products and services are designed in a way that generate income and also create a positive shift in terms of environmental and social change. As Matthiew Koehorst—Head of Sustainability and Planting—makes it clear, in South Africa, social and environmental issues are inextricably linked: 'The social part of Greenpop as an environmental organization is the fact that many of the human issues and challenges around the environment are inherently social. So the only way to address environmental issues is through social issues.'
  Greenpop aims to make green and conscious living easy, accessible, and fun. At the same time, its staff strives to lead by personal example: engaging in a lifestyle that includes recycling, banning plastic containers and paper cups, cooking with a gas stove in the Greenpop office,and even growing their own vegetables and herbs in Greenpop's nursery. At events, the venture does its best to minimize its ecological footprint, for example, by avoiding the use of paper, by promoting solar energy, and through upcycling (the creative reuse of by-products or waste material).
- By planting trees in underprivileged and 'under-greened' communities. The trees are provided free of charge to the beneficiaries. Furthermore, the people in the townships who are involved in the project also receive education about the importance of trees for the welfare of children and the community; they are also taught how to grow and maintain their trees. In the post-apartheid years, in which the needs of underprivileged communities continue to be neglected (through lack of government investments), Greenpop notes that the 'greening' of these communities is not only needed but also desired by residents as a means of developing green and natural living spaces.
- The third building block in Greenpop's social mission that is linked to its first emphasis is evident in its focus on tree planting events in Platbos and Hogback (South Africa) and in Livingstone (Zambia). At these events, local and international volunteers are given an opportunity to learn from each other, get together, share experiences, and make friends while planting trees and enjoying the outdoor experience. Misha describes this aspect of Greenpop's activities: 'The people who are coming to our events are benefitting as they go through a life process. They arrive at one of our events thinking one thing and our mission is to allow them to leave the event feeling inspired and being able to become active citizens. And they receive the power and inspiration they need to make big things happen in their personal lives.'
  In other words, Greenpop's intent is not only to model a sustainable lifestyle in fairly specific terms (the role highlighted in the first building block), but also to

encourage active citizenship and a fundamental rethinking of values at a more general level through networking.

- The final emphasis in Greenpop's social mission is developed through its use of social media to provide readers with positive and action-oriented news and information. Items are posted on Facebook and Twitter twice a day, and the venture sends out a newsletter every two weeks. Misha describes the logic behind this aspect of the venture's operations as: 'In general, there is a trend of bad and negative news out there. We therefore put a lot of positive, inspirational and educational news out. The people who are receiving our news are benefitting, as they are getting the positivity and activation, which is linked to activities.'

7.4 Managing the Challenges and Opportunities of Hybridity

An important aspect of the Greenpop story relates to the process through which the enterprise developed from a one-off charity project into a sizable hybrid venture employing a small core of salaried employees and engaging thousands of volunteers. Important aspects of this process are now discussed along with the key challenges in the growth of the young social enterprise and the ways in which these challengers were resolved.

In many western contexts, the government and employers have created welfare nets that cater to a majority of any one country's population. Social enterprise is often framed therefore as an enterprise that caters for the [relatively few] failures of institutions that provide welfare and security. In countries such as South Africa, however, institutions that provide large sectors of the population with welfare-related services are uncommon, and consequently, social entrepreneurship takes place in a particular context that influences the entrepreneurial venture and the process by which it develops (see Welter 2011). In many South African townships, the list of social needs that *could* be addressed by a social enterprise is endless. Ventures operating in these contexts are forced to make difficult choices: maintaining focus in order to avoid 'mission drift,' while at the same time being open to strategic opportunities.

In Greenpop's case, it initially targeted people who were beneficiaries in townships that were receiving the trees. However, as time went by, the founders realized that another important group of people was also benefitting from Greenpop's activities—volunteers who were attending the planting days and events. Many of the (corporate) volunteers had never been to a township before or had not been exposed to a sustainable lifestyle. Consequently, Greenpop received a substantial amount of positive feedback from people who had attended their planting days, events, and workshops. These people described experiences such as a change in perspective, feeling motivated and inspired to learn and change, becoming connected to new people and even major shifts in lifestyle, toward active citizenship.

Greenpop staff members do not distinguish between the enterprise's social and environmental orientation and argue that their emphasis on these two areas goes hand in hand. As Matthew notes:

> You can't just focus on conservation without understanding that it is a people issue that causes so much stress on the environment. Therefore, being green and being social is the same. We *are* nature. Our issues are issues with the environment. It is just a different way of describing the same thing.
>
> Obviously, there are so many more social issues in South Africa; you could look at health, education etc. At Greenpop, we focus on the environmental element of society.

An important step in Greenpop's development was its ability to combine the two apparently contradictory processes of specialization (focusing on a specific need, product, or service) and adaptation (taking on board additional opportunities that complement the enterprise's original mission and enhance its financial sustainability).

7.5 Growing Organically and Innovatively

Organic growth implies developing an enterprise by means of internal resources or resources generated by the organization itself, rather than those bought or borrowed from other institutions. Over the years, Greenpop has grown steadily but organically and today, what started as Misha's unique idea has turned into a fully functional social enterprise. In order to do so, however, it was necessary for Lauren and Misha to engage in an ongoing process of formalization and improvement. Their former apartment was changed into an office, and new staff and interns were recruited as resources permitted. More formal and effective internal structures and procedures have been implemented, and the enterprise's green ecoawareness events have become more impactful as the organization has learned to plant trees more efficiently and sustainably. However, the account given by one of Greenpop's advisory board members (serial entrepreneur Carl Pretorius) also shows how the values and strategy of the enterprise emerged over time. Pretorius' account also reveals the importance of the founders' passion and example in 'igniting' a similar passion in others, a passion that enabled the enterprise to attract unpaid volunteers crucial to their organic growth:

> It still amazes me how selfless Lauren and Misha are. It is not about making money. It is about spreading this wonderful thing what they are doing. This is what amazes me, and I told Misha that right from the beginning. This is also the reason why I agreed to become a board member. At the beginning I didn't understand their thinking. When I started work it was [all] about making money, buying a big house and a fast car. Things changed a lot. It is not only about making money. It is more about doing good.

Despite the initial success, the enterprise's founders rapidly became aware of the tension between running an innovative venture (entailing risk) and operating a financially sustainable organization. One of the main challenges for growth at Greenpop was therefore that of maintaining the innovative nature of the enterprise, while preserving awareness about the dual mission of their venture (social impact with financial sustainability): 'Initially, it was easy to get people excited to come and plant trees with us (or getting them planted) as the concept was young and fresh and something nobody had heard of or done before.'

Greenpop's history suggests that as social ventures grow, they may run the risk of becoming less innovative. In the early stages of their venture, Misha and Lauren experimented with many different socially inspired products and services. At times they came up with new, risky, and unconventional solutions such as hosting the three-week long tree planting event Festival of Action, which was run in Zambia and attracted over 100 participants. However, as the venture grew, they became more sensitive to the possibility of failure given the increasing number of fixed expenses that needed to be covered and the increasing social responsibility of the venture in terms of employees' salaries. Due to these responsibilities, Greenpop's founders gradually became less opportunistic and less keen to work on the basis of trial and error and comparatively more risk averse. With this, change came growing awareness of the need to identify and focus on the core areas in which the enterprise was creating value. As Misha noted: 'These days, as we are getting more experienced and professional in this space, we need to really focus on how to create actual value.'

Misha also demonstrated a keen understanding of what it is that makes Greenpop unique and enables it to stand out among other organizations: 'In the environmental space, we are quite different. We are all about having fun. Our project/products are appealing, positive and interactive. It is a positive message and we attract people because they want natural positivity.'

Based on their awareness of the value they wished to create and of the unique attributes of their venture, Lauren and Misha chose to focus on innovations in areas associated with Greenpop's core value propositions (tree planting and ecoeducation), rather than trying to constantly come up with new ideas. By taking existing enterprise models such as tree planting events and reshaping them for new target groups and markets (e.g., school groups), the enterprise is able to create sustainable value without losing its innovativeness.

7.6 Developing an Appropriate Business Model

Despite the fact that Greenpop behaves as a hybrid social enterprise in its daily routines, in legal terms, it is registered as a traditional for-profit company. This status reflects the fact that till now, there is no legal structure provided for social enterprises in South Africa where organizations are forced to choose between formal status as either a for-profit or a nonprofit organization. However, both legal forms entail advantages and disadvantages for Greenpop. Its current legal status as a for-profit organization provides the founders with more control over the company, its income streams, and less administrative work, whereas a nonprofit status would enable the organization to attract and accept higher levels of funding and grants (due to different tax regulations).

These legal considerations had significant ramifications on how Greenpop could be run and income generated. Consequently, in 2011, the founders began to seriously address the question whether it was desirable to align the organization's legal status with their desire to pursue their social mission in a financially sustainable way and how this could be achieved. Subsequently, the idea of formally adopting a hybrid model[3] gradually emerged as the founders were exposed to ideas of social entrepreneurship through talks and discussions with consultants and by working through a simulation of how the enterprise would function if it was split into two legal entities. The founders were attracted to this solution as maintaining the for-profit entity allowed them to fulfill its business mission (of generating income). The creation of an additional nonprofit entity on the other hand would enable them to focus more effectively on their second mission (of having a social impact), by allowing them access to additional sources of funding. As Misha commented:

> One reason why we are currently looking even more into the possibility of the hybrid model is that we are trying to balance income and expenses in the long-term. This approach allows us to plant trees and run our education programs, taking kids and educating and inspiring them. So we are doing exactly what we used to do but now we are making money from it.

Despite this realization, the founders are aware of the fact that despite the advantages of being able to attract additional funding as a nonprofit venture, such a change would probably involve significant challenges. The proposed business model (implying a split into two legal entities) is expected to change the enterprise's internal processes and procedures, its brand awareness among potential donors and partners, and possibly even its culture.

7.7 Increasing the Effectiveness of the 'Product'

Despite Greenpop's founders' concerns about how to ensure the long-term financial sustainability of their enterprise, they have also continuously worked on enhancing the organization's effectiveness in terms of achieving social impact.

In order for the freshly planted trees to survive, they need to be watered with up to 18 L per week (or 6 L every 3 days) for the first 6 months to increase their chances of survival in the harsh conditions that they are exposed to. In the early stages of the venture, Greenpop simply contacted potential beneficiaries and asked for their willingness to plant trees in their community. With time, however, they came to realize that a major success factor in the survival of trees was the willingness of the people in targeted communities to take on the responsibility for the

[3]That is, in terms of the legal organizational status of the enterprise.

welfare of the trees. Consequently, after 8 months, Greenpop changed its operating strategy and subsequently adapted it further as time went by, based on its experience.

Today, after a successful application for trees,[4] a community becomes part of the Cape Town Urban Greening Program. This implies a two-year commitment, with Greenpop committing to supporting the community especially during the first 6 months of the project with follow-up via email, phone calls, and workshops. Misha describes the refined model as:

> We spent the last five years building different layers on to the tree-planting experience. Now we've got all these different layers – monitoring the sites physically once every six months, replanting, reconnecting and communicating through weekly SMS, email reminders, monitoring phone calls and having consistent touch points such as workshops twice a year. We are finding that the tree survival rate has increased more and more. We are sitting on over 60 per cent on average, which is a very good rate as it is not easy to grow trees in this harsh environment. So we are really excited about that. And our work has definitely been of value so far.

In common with many social enterprises, Greenpop has come to emphasize on effective follow-up and impact assessment as the venture has developed. This emphasis has to do with increasing awareness among venture staff of the need to work effectively. As Lauren points out: 'We want the trees to do well. Otherwise it is a waste of everyone's time and money.'

However, she also demonstrates awareness about the link between the initial identification of a 'good' site (or community) and the subsequent success of the tree planting: 'Finding good sites is not only essential but also a continuous challenge for Greenpop, as the monitoring and support is very resource intensive.'

7.8 Communicating Across Cultures and Classes

The founders of Greenpop are white, middle-class individuals who are a part of a small, but economically advantaged section of the South African population. An important ingredient in the development of their enterprise has therefore been their ability to communicate effectively across cultural and class boundaries. As Misha says:

> We are different people. I am very different from the man who is making charcoal in the middle of Zambia and I assume I know what he needs. Our mission is to be as sensitive as possible. To listen as much as we can. To bring multiple groups in. And to come up with solutions which are maybe not the conventional ones. For example, we are not stopping people cutting down trees. We are not protesting against farmers or charcoal people. They are not the bad people.

[4]Beneficiaries need to prove that they need trees, have access to water and permanent staff, and can provide security.

> So the challenge is to understand people's backgrounds and to be as sensitive as possible about it. And trying to find multiple point solutions through pre-research, through adapting on the ground while being there. There are various ways to make it work and make it valuable.

Communication became increasingly important for Greenpop's success as the enterprise was faced with different expectations and perceptions among its target groups which included not only disadvantaged communities, but also private and corporate volunteers. Here, it appears that the 'bridge-building' abilities of one of the founders (Misha) were instrumental in enabling communication and creating a culture of sensitivity. As one respondent noted, Misha is 'a classic connector' who has 'this exceptional ability to make friends.'

7.9 Success Factors

The planting of trees by project beneficiaries is a simple idea that is not new and that has been imitated by other organizations in South Africa. However, there are several factors that go some way toward explaining why Greenpop in particular has been able to grow and pursue its multiple missions in an effective manner.

7.9.1 A Unique Value Proposition and a Strong Sense of Timing

First of all, Greenpop's mission is not only very simple to understand, but also unique. It is about (re)connecting people to each other and to the planet. It is about planting trees, learning from each other, and connecting while learning how to become active citizens. Furthermore, with its fun, lighthearted, and positive approach, Greenpop differentiates itself from other environmental organizations. As Lauren notes:

> Our product is very simple. It is very easy to explain what we do. And people get it. It is not fancy or super clever. Anyone can do it, it is just about *how* we do it. We are all about having fun. Our projects and products are appealing, positive and interactive.

In addition to this distinctiveness, Greenpop adapts its existing product portfolio and event packaging, while at the same time experimenting with new activities in order to remain innovative. Consequently, one of its main strengths is its ability to 'read' and understand different groups of people and target markets. In doing so, its staff members have identified new opportunities and developed new products and services to exploit them. Nonetheless, the societal context (in terms of timing) also plays an important role for environmentally conscious organizations such as Greenpop as people are increasingly conscious of and responsible for social issues. Lauren describes the role of this trend as: 'We developed organically. We try to find projects which make sense for the time. The green economy is growing and the consciousness of the world in terms of how to do business is changing. People want to give back.'

7.9.2 An Effective Team and an Attractive Organizational Culture

Greenpop is characterized by the idea that innovation comes from within and is positively influenced by a mix of different people with diverse backgrounds, knowledge, and ideas. Consequently, from the very beginning, the enterprise teamed up with a variety of creative and like-minded individuals—people who over time have also shaped Greenpop and contributed to its 'treevolution.' Three main groups of people can be seen to have had a significant impact on the development—and the success—of the venture:

1. The Founders

Lauren O'Donnell and Misha Teasdale are not only the founders and drivers of Greenpop, but also husband and wife (they got married in December 2014). Within Greenpop, they hold different roles. Misha can be described as the 'visionary, macro guy' with the big ideas, the 'big dreamer type' who is not only driven by opportunities, but who also has good awareness about systems. Lauren on the other hand can be characterized as the main 'rock' within Greenpop, as she is the brain behind many of its systems, as well as being structured and rational while keeping an eye on the organization's budget and capacities. As a result, Lauren is in a sense the person who holds things together. She is not only concerned with strategy and big-picture topics, but also focuses on day-to-day operations. She keeps the business running on a daily basis, while having an eye on the details of Greenpop's operations.

Importantly, therefore, Lauren and Misha's different roles constitute a source of competitive advantage for Greenpop. The two founders are able to complement one another in terms of vision and structure, while at the same time allowing themselves the freedom to be different, to think differently and to dream.

2. The pivotal role of organizational culture in recruitment and innovation

Over time, Lauren and Misha have created a highly energetic and dynamic working environment at Greenpop. Although the initial informal processes of the enterprise have been replaced with more defined structures, procedures, and job roles over the years, employees still feel as if they are working in a start-up with a family 'vibe.' As two employees commented:

> It's fun, it's dynamic - there is always a lot going on! And there is always a lot changing and a lot happening. It's always a lot of people having a lot of fun. It's real passion. It's real dedication. It's real professionalism. But it is all done in a very light-hearted, fun way.

> We are casual professionals, we work really hard and take our work seriously, but we try to do so with a light approach.

This culture not only attracts the right people, but also plays an essential role in enabling the enterprise to explore opportunities and overcome challenges. Misha suggests that this emphasis is needed in order to maintain innovativeness and to build and sustain the enterprise's balance between its social and business missions: 'One of our success factors is our adaptability—our ability to not be afraid of experimenting, trying new things to see what's working and what is not working and going from there.'

3. Partners and supporters

Over the years, Greenpop has built an extensive network of business partners and supporters. Obtaining partners' support is not only important for the venture, but also an essential part of its business model. It is an integral part of the way the enterprise does business and of the services and products it offers. Greenpop emphasizes the importance of building and maintaining partnerships that are sustainable and valuable for everyone involved. Some partners provide the enterprise with basic goods such as compost and poles, while others supply materials and equipment for their planting days and events. Greenpop works with these partners in arranging events and offers marketing activities through its social media channels. By doing so, the venture has managed to attract strong and valuable partners who are well-aligned with its brand and social mission.

7.9.3 The Emergence of Strategy in Social Enterprises

The Greenpop case study provides several useful insights into social entrepreneurship and the social entrepreneurial process. First of all, the enterprise is located in an emerging economy, and as a result, it provides unusual insights into the emergence of social enterprises in this context. It is particularly interesting to note how ventures adapt to the particular institutional characteristics of their host societies—in this case the perceived absence of an appropriate legal form for hybrid/social enterprises. However, the case also illustrates how social ventures in emerging economies manage the requirement of focusing on a particular societal need in an environment characterized by a multiplicity of needs. The Greenpop case shows how it is possible for ventures to maintain their core focus, while also achieving the flexibility and agility necessary for them to incorporate relevant additional aspects into their missions.

A second discussion in this chapter has to do with the success factors associated with Greenpop. In particular, this case distinguishes the important role played by passionate and effective founders, strategic partnerships, and employees who share the vision and values of the founders. The case study also underlines the importance of social enterprises developing a distinct value proposition and brand in terms of creating a value and an organizational identity.

A final aspect of the Greenpop case that is worthy of mentioning is the light it sheds on the developmental processes of hybrid enterprises. Although this chapter focused on the case of social enterprises, it is important to remember that hybridity is a challenge faced by many other categories of ventures including organizations that combine ‘public’ and ‘private’ logic. Consequently, an important contribution of this chapter is its discussion of how ventures are able to achieve hybridity while maintaining a relevant degree of innovativeness. The case study shows, for example, how founders struggle with the pressure to prioritize financial security over experimentation as a venture grows and provides a useful example of how this tension can be resolved (by innovating primarily in the areas that are ‘core’ to the enterprise’s identity and value creation). This study also identified the dual nature of innovation in hybrid enterprises with Greenpop experimenting with different legal forms in order to achieve financial sustainability while simultaneously developing more effective processes for achieving its social mission. The issue of innovation in hybrid organizations is an important one, and as this study only really begins to scratch the surface of the topic, it is clearly an area that will benefit from further research. By addressing this issue, future studies will be able to add details and insights to the knowledge that this study has started developing, that is, the question of *how* entrepreneurs can engage in innovation, while at the same time developing effective strategies for managing the downsides of hybridity and taking advantage of the opportunities associated with this duality of purpose.

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Chapter 8
The Challenge of Becoming a Successful Entrepreneur in a Hostile Context: The Example of Mohamed Ibrahim, the Founder of MSI and Celtel

Omaima Hatem

Abstract Literature on entrepreneurship in Africa has a tendency to focus on entrepreneurship out of necessity, that is, on entrepreneurial activities conducted as a last resort when no other opportunities for employment are in reach. Innovation-driven business models and entrepreneurs are rarely the focus in this literature. This chapter illustrates that highly successful, innovation-based entrepreneurs also exist in Africa. It presents the case of Mohamed Ibrahim, the entrepreneur behind the consulting firm Mobile Systems International (MSI) and the telecommunications company Celtel. The case study outlines the successful development path of an outstanding entrepreneur who won against all odds in a hostile environment.

Keywords Mohamed Ibrahim · MSI · Celtel · Entrepreneurship in Africa

8.1 Introduction

This chapter tells the story of a successful entrepreneur, Mohamed (Mo) Ibrahim and his different entrepreneurial ventures. Mo Ibrahim belongs to the Nubian people from southern Egypt and northern Sudan. After a doctorate and a position in a large international communications company, Ibrahim was headhunted to lead a new spin-off company in the area of telecommunications in 1983. His employer's failure to grasp the potential of new technology led Ibrahim to resign and set up his own consultancy in mobile telephony, Mobile Systems International (MSI) in 1989. From this modest beginning, Mo Ibrahim made the company grow into a business group with 17 international subsidiaries and 800 employees; it was valued at US$ 916 million in 2000 when it was bought by Marconi Company. In 1998, MSI had spun-off its Dutch subsidiary MSI-Cellular Investments, which later changed its

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name to Celtel. Celtel became a major telecommunications operator in Africa, which was considered a hostile environment by all other international operators. This company was characterized by strict controls on gratuities (bribes) and employee share-ownership, of which Mo Ibrahim is very proud. At the time of sale to MTC Kuwait in 2005, the company was worth US$ 3.4 billion and its African staff shared US$ 500 million between them as shareholders. In 2004, Ibrahim created the Mo Ibrahim Foundation, which leads his various charitable causes such as those promoting transparent leadership within Africa and providing funding for the education of African students the world over. In cooperation with professors from Harvard University's Kennedy School of Government, Ibrahim has also created the 'Ibrahim Index of African Governance', which ranks countries based on factors such as corruption, safety and human rights. In 2008, *Time* magazine ranked Mo Ibrahim as one of the 100 most influential people in the world; he has also featured on the *Forbes* list of the 100 most influential people worldwide. This chapter traces Mo Ibrahim's path to becoming a successful entrepreneur.

8.2 The Success Story

Mo Ibrahim was born in Sudan, but was educated in Alexandria and the UK. He worked in the national telecom company in Khartoum, Sudan. He describes what he did as, 'I found the work thrilling and absorbing, but I certainly had no idea it was going to make me a lot of money.'

In 1983, he was attracted by British Telecom (BT) and became the technical director of its infant company Cellnet (now O2). He describes this period of his life as being 'a very frustrating experience, thanks to BT's failure to grasp the potential of new technology.' After six years of struggling he decided to resign from his executive career and set up a consultancy firm. He formed his first company, MSI where he designed technical specifications for different operators. He explains: '…if I could save 10 % on operators' networks who spend billions on their hardware, then I was saving hundreds of millions (for the operators) and so could now charge what I liked.'

Mo Ibrahim worked with a group of young innovative communication engineers who saw an opportunity in the challenging problems facing the operators, and thus made it their goal to grow their company based on a strategy of new innovations to help cut costs for network operators. From simple beginnings, Mo Ibrahim managed to grow MSI into a business group of 17 international subsidiaries and 800 employees, some of whom owned 30 % shares in the firm. Later, as Mo Ibrahim explains, the opportunity presented itself to go to Africa. So in 1998 he spun-off Celtel as an operator subsidiary rather than as a consultancy (like MSI). When at the end of 2004 he accepted an offer to sell Celtel for US$ 3.4 billion, his staff received 500 million dollars as shareholders in the company, thus making 100 African employees millionaires overnight as a result of the sell-out.

According to Mo Ibrahim, a number of different factors have contributed to his successful journey, including resources and capabilities, entrepreneurial capabilities, international entrepreneurship, motivation, the entrepreneurial team and social entrepreneurship.

8.3 Resources and Capabilities

8.3.1 Human Capital

Mo Ibrahim explains that his knowledge and learning capabilities were a resource and a process at the same time. As a resource, his knowledge was gained through his telecommunication studies at both undergraduate and graduate levels in Egypt and the UK. He depended on this knowledge and his experience of working with British Telecom and O2 to build his abilities and capabilities in tackling different technical problems. However, he explains that his real knowledge ability, or his learning process, was leveraged through the opportunity of licensing. He decided to go international because he discovered that emerging markets, and more significantly Africa, had no licensing restrictions. He saw this as a 'golden opportunity' and a key piece of information on which he decided to build his business. He explains, 'Everywhere in Europe and everywhere in the States, and everywhere else in the world, to get a license was so, so expensive.'

This knowledge of the international market and the related ignorance or reluctance of other operators illustrates the extent of his entrepreneurial alertness. He managed to utilize this knowledge resource to create and sustain wealth. The other element that Mo Ibrahim stresses as a major factor in his company's high growth is the character of the people who joined him as colleagues. He considers them to be his entrepreneurial team and gave them equal shares in his company. Each one of these team members brought expertise in different African markets, and they rapidly internationalized into 22 African markets. Access to knowledge in new markets and mobilizing resources internationally were an on-going learning process that Mo Ibrahim views as key to his company's rapid and international growth.

Mo Ibrahim and his colleagues mobilized resources internationally in African countries, and this is why knowledge to them was not only a resource, but also a process. Such an on-going process of mobilizing the human capital resource confirms the status of knowledge as both an asset and a process.

8.3.2 Social Capital

Mo Ibrahim leveraged an extensive network through his colleagues in university and postgraduate education institutes in Egypt and the UK. In particular, through his academic and work career in the UK, he had a wide range of connections with young and innovative engineers. His relationship with government agencies built through his executive career in the UK gave him access to knowledge and links that enabled him to build his new business in Africa.

Mo Ibrahim explains how networking was crucial for getting his venture started: 'I was a frustrated intrapreneur in a company which did not appreciate my entrepreneurial ideas about going to new markets, going international and to the African continent where there were lots of opportunities.'

He depended on his instincts and resigned to start a new company. He started his business with three colleagues who believed in his abilities and later increased the workforce to ten. As the business expanded, the number of personnel increased to 100, starting the journey of building a multinational business. For a number of years, his was one of the highest valued companies in the world and after selling the company, Mo Ibrahim became one of the richest people in the world, according to the *Forbes* list of billionaires (#1,638 worldwide, as of 2015).

Mo Ibrahim explains how networking with old colleagues as a process was crucial for his company's growth and rapid internationalization: '… to tell the truth, I started my business in Africa by utilizing my networking resources with African officials. I am very proud of the fact that I managed to work in Africa in as "clean" a business environment as possible despite its reputation for bribes and corruption.'

He required a commitment from his board of directors that they would not engage in bribery and corruption. According to Mo Ibrahim, his company succeeded in avoiding paying bribes at least 90 % of the time. To achieve this he agreed with his nine board members, who were originally his colleagues, that if anybody asked for a bribe they would embarrass him by answering, 'I am happy to give you a bribe, but I have to go back to my board to be able to get approval to pay anything above £10,000.' This proved to be a very effective deterrent. Most of the time, people were too embarrassed about going to the board and usually they just backed off and took the £10,000 and in return gave Ibrahim's company whatever paperwork it needed to carry out its business. African officials offered him help to develop some of the remote areas on the continent instead of paying bribes. In addition, Ibrahim's holding company offered alternative development projects to help in other service areas such as education.

According to Mo Ibrahim, he built a lot of very good relationships with government officials who appreciated his style and who gave him even more contracts. He explains that his networking went through different stages. Initially, he depended on his colleagues, on his family members, who were originally from Sudan and on his knowledge and expertise to convince people to join his firm. Later on, his networking focused on senior and influential political officials to attract more business for his company. Ibrahim maintains that he could not have set the foundation and focused on supporting education without networking.

8.3.3 Financial Resources

The initial financing for Mo Ibrahim's venture came from his personal savings from his income as an employed manager. He later expanded his financial base modestly through business associate investments and ultimately by offering shares through IPOs.

8.4 Entrepreneurial Capabilities

Ibrahim's entrepreneurial journey started when he identified an opportunity while working in a firm that was not responsive to his ideas. Mo Ibrahim's proactiveness led him not only to leave that company and start his own venture, but also to invest in a risky location like Africa, which posed challenges that other established companies did not wish to take in terms of political instability, weak infrastructure and a compromised business environment. However, his acumen coupled with a willingness to accept a series of risks, prompted him to trust his innovative capabilities to grow and sustain a highly profitable business.

The team of young communication engineers which he collected around him kept developing innovative marketing capabilities. Mo Ibrahim's leadership style involved giving many of them managerial responsibilities. This enabled him to leverage the knowledge that they possessed about different markets and so mobilize their resources to internationalize more efficiently and rapidly.

8.5 International Entrepreneurship

In 1989, Mo Ibrahim started the consultancy MSI, where he designed technical specifications for different operators that reduced their hardware costs by 10 %. Later, Celtel was established as an operator to launch a new 'clean' business, without corruption, on the African continent, with the hope of exploiting new opportunities. As he explains: '… the one place on earth where licenses were available for free was Africa. Nobody wanted to go to Africa.'

The internationalization of his firm into new markets through telecommunication expansion projects is shown in the timeline of his company in Fig. 8.1. Celtel was started and grew as an international entrepreneurial firm and its activities were 100 % in foreign African markets (see also Hatem 2012).

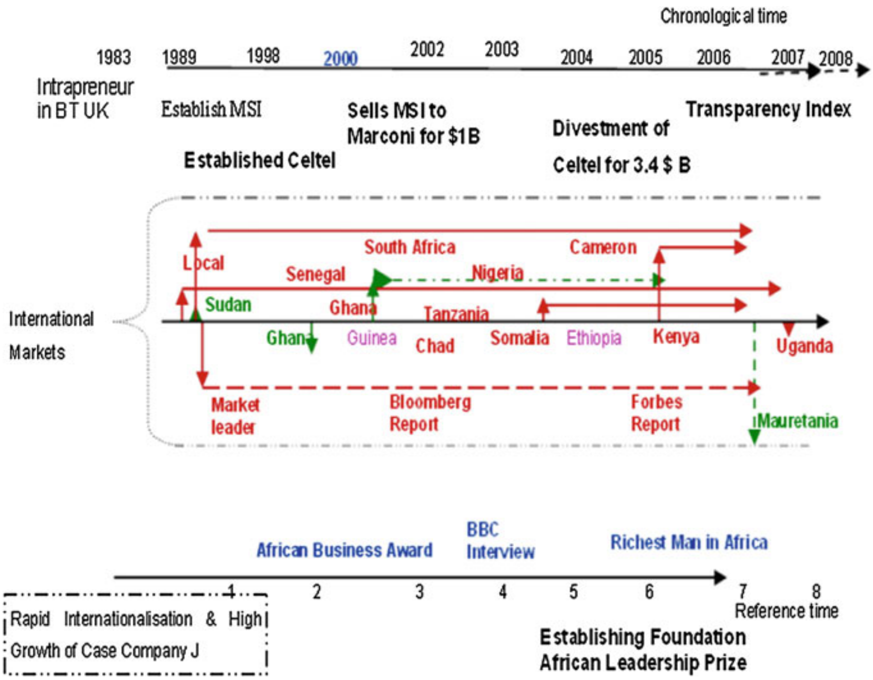

Fig. 8.1 Finger print pattern of Celtel's internationalization Source: Author

8.6 Motivation

Frustration about lack of understanding by his superiors for his business ideas motivated Mo Ibrahim to resign and start his own business to pursue his ideas as a true entrepreneur. His vision to invest in Africa was the key motivating factor behind his decision to expand. He was also driven by the fact that there was no competition on the African continent, which meant that there was an untapped pool of business opportunities that his company could exploit. This led to an expansion from 7.5 million to 76.8 million users in only four years.

8.7 Entrepreneurial Team, International Diversification and Business Groups

One hundred employees of the company were shareholders and partners with a stake in their company's growth and success. Mo Ibrahim is proud of the fact that at a time when offering shares to employees was not a common practice he offered shares to his employees. This practice also reflects his distributed leadership style, which according to him is based on an opportunity to develop ideas and 'reap the rewards' on a fair basis. The shareholders were entrepreneurial team members who helped build this telecommunications empire as the firm diversified into new geographical areas on the African continent. They also attended to customer needs in these new African markets, initiating the formation of business groups. Celtel started when the African continent had 7.5 million mobile phone users and by 2004 this number had increased to 76.8 million users (an average annual increase of 58 %). Many people in Africa were using their mobile phones for trading, finance, shopping, elections, driving and for many other things. Thus, expansion into many African countries was an opportunity to help fulfill the needs of customers and at the same time exhibit very high growth with the help of efficient team members.

8.8 Social Entrepreneurship

Mo Ibrahim has always been a man of vision. Back in 1974 his doctoral thesis dealt with mobile communications. When he started his mobile phone operator Celtel in 1998 to work exclusively in Africa, there were just 2 million cell phones being used on the continent. When he sold the company seven years later, there were more than 100 million, and the company had created many jobs and a lot of infrastructure on the continent.

The Sudan-born entrepreneur never lost faith in his native Africa. He understood the enormous potential that could be unleashed by technology. Unreliable and inadequate telephone landlines had frustrated Africans' entrepreneurial abilities. While doing business in Africa, he recognized two other essential, but unmet needs: good governance and responsible institutions.

In one of his speeches to young African students, Ibrahim noted that while Africa was a very rich continent, it had the poorest people on earth. He blames this state on 'a catastrophic failure of leadership and governance…too many dictators, too many megalomaniacs, too many thieves, who bled this continent for their personal and family interests.'

Mo Ibrahim, who turned 67 in 2004, is often hailed as a hero in Africa. His mobile phone operator Celtel has contributed to the development of civil society across the continent, and he is now spending the money that he has earned to enhance the value and standard of living of the African people. To pursue his vision of a better Africa, Mo Ibrahim set up a foundation in his name to encourage better governance in Africa and developed the Ibrahim Index of African Governance to evaluate governmental performance of Africa's 53 countries. In 2007, he initiated the Foundation Prize for Achievement in African Leadership, which awards a US$ 5 million initial payment, and a US$ 200,000 annual payment for life to African heads of state who deliver security, health, education and economic development to their constituents and democratically transfer power to their successors. However, he has not awarded the prize since 2011 due to lack of suitable recipients.

8.9 Discussion

After being educated in London, UK and working with British Telecom for a number of years, Mo Ibrahim returned to Sudan. The knowledge that he acquired abroad allowed him to launch Celtel in a region with endless bureaucracy and formidable political risks.

Mo Ibrahim represents a growing number of educated entrepreneurs from the African continent returning to their home countries making efforts to start or revive entrepreneurial ventures with international ambitions. However, to date there is no clear idea about how they do it and what role their foreign education plays in the internationalization of their ventures. This chapter takes a first step in showcasing such entrepreneurial efforts. The case illustrates the role of the learning process developed by Mo Ibrahim as a diaspora entrepreneur to use his foreign-acquired knowledge for creating an entrepreneurial enterprise on the African continent.

Thus, the main contribution of this chapter can be seen in the detailed description of how a diaspora entrepreneur's knowledge, which he acquired during his education and work experience abroad, in combination with his familiarity with African specificities, interacts with the unique institutional context of the African continent to create a highly successful multinational company. Founders' characteristics of diaspora entrepreneurs, especially knowledge acquired through education abroad have previously received scant academic attention (Wright et al. 2008).

This chapter also sheds light on the unique context of the African continent. Although entrepreneurship research has paid special attention to the entrepreneurial phenomenon in emerging markets, relatively little research exists on entrepreneurial ventures and their founders on the African continent (Bruton et al. 2008). While literature on entrepreneurship in emerging economies has addressed this phenomenon from a strategic perspective (Peng 2003; Zahra and Wright 2011), the focus on the interplay of entrepreneurs' knowledge and the unique institutional structure of these markets highlights the relevance of individual-level factors. In terms of practical implications of this case study, it points at the importance of guiding emerging markets' entrepreneurs' choice of host countries.

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Part III
Cases: Rwanda

Chapter 9
The Case of Rwanda as a Developmental State

Zsuzsánna Biedermann

Abstract This paper discusses the applicability of the concept of a developmental state in Africa through a case study of Rwanda. It analyzes the country's unconventional institutional framework that enables the acceleration of 'primitive accumulation,' a leap from pre-capitalism to capitalism, which is an important step for facilitating entrepreneurship in the country. The developmental state can be defined as one that attempts to deploy its administrative and political resources for economic development. The Rwandan state has several attributes of the classic developmental state: a transformative leadership with a developmental vision, closely intertwined business, and political sectors to build an entrepreneurial society and a highly effective public bureaucracy. What makes Rwanda different from states with similar developmental ambitions is its unique post-genocidal setting and special homegrown solutions. The 1994 genocide was a shock that moved Rwanda out of the high-corruption equilibrium and opened a window of opportunity for deep-seated reforms. Homegrown solutions combine classic developmental tools with indigenous knowledge and mobilize people to take part in the long-term development of their country. Rwandan innovative ideas prove that private enterprise, rather than charity, might be a sustainable solution for poverty in Africa. Ordinary Rwandans feel part of Rwanda Inc. and society's extensive involvement ensures exceptionally wide support for the regime: The government and military are backed by 80–90 % of the population in most of their endeavors.

Keywords Developmental state · Rwanda · Development-oriented leadership · Entrepreneurship · Effective public service · Post-genocidal setting

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9.1 Introduction

A series of successful developmental strategies in rapidly growing African countries have resuscitated general interest in the applicability of the concept of a 'developmental state' in the continent and the role of the government in boosting economic growth in the developing world. The developmental state concept derives from the 'East Asian tigers' of Hong Kong, Singapore, South Korea, and Taiwan where peasant societies were forged into highly competitive economies in the course of two generations. Debates on whether the original strategies are relevant in Africa are also reflected in contemporary comparative political literature. Several authors focus on the possible application of East and South East Asian developmental experiences in Africa (Henley 2015; Ubhenin and Edeh 2014; van Donge et al. 2012). In this chapter, I analyze the applicability of the concept of a developmental state to Rwanda, which is often praised as an East African developmental role model due to its stability and sustained and inclusive economic surge, and discuss the role of entrepreneurial activities for this country.

This chapter is structured as follows: The following section summarizes the central findings of existing research literature and examines the theoretical underpinnings of the concept of a developmental state. Thereafter, a short discussion of its applicability in the twenty-first-century African context follows which leads to the central theme about the Rwandan developmental strategy. It then assesses to what degree Rwanda's strategic vision of establishing an entrepreneurial society is a replica of the original East Asian model and whether it is possible in the twenty-first century to borrow from the original developmental paradigm. Finally, the main findings are summarized in the conclusion.

9.2 A Short Review of the Conceptual Framework: Defining Features of a Developmental State

The term developmental state was first introduced in the literature by Chalmers (1982) describing successful Japanese state-coordinated efforts from 1925 to 1975 that achieved dramatic economic growth. There are numerous previous examples of similar but less successful efforts. Chibber (2004) and Bagchi (2004) consider comparable Turkish, Brazilian, and Indian initiatives. However, because the term itself came into being in 1982, and quickly gained reputation, Johnson's work is widely recognized as the first milestone (Ricz 2015).

A developmental state can be defined as one whose ideological underpinnings are developmental and which seriously attempts to deploy its administrative and political resources for economic development (Meyns and Musamba 2010).

A developmental state is associated most of all with a highly effective public bureaucracy based on meritocratic recruitment and long-term career rewards comparable to that of the private sector. The political leadership is capable and willing to 'maintain powerful, competent and insulated specialist economic bureaucracies, highly trained and largely insulated from the cloying demands of special interests, avoiding the main "capture" by such interests' (Leftwich 2008: 14). Evans and Rauch (1999) validated the significance attributed to bureaucratic capacity by estimating how a 'deviation' from the standard 'Weberian' model[1] of ideal bureaucracy affects GDP growth rates. They found that an increase of one-half of a standard deviation in the 'Weberian' score was worth a 26 % increase in GDP from 1970 to 1990.

Another attribute of a successful developmental state is development-oriented political leadership closely connected to the business sector ('embedded autonomy' in Evans' [1995] terms), referring to a mostly reciprocally favorable synergistic relationship between pilot state agencies and key industrial capitalists. Japan's pilot agency was the Ministry of International Trade Investment (MITI), and that of the Republic of Korea was the Economic Policy Board (EPB), while Singapore operated the Economic Development Board (EDB). The illustrative case study discussed in this chapter, Rwanda, boasts of the Tri-Star (later Crystal Ventures) holding and Horizon Group, as well as the Rwanda Investment Group playing a crucial role in forging a strong link between the state and the business sector.

Since committed elites are capable of mobilizing even hidden resources in society, it is also significant to have a unified leadership with a developmental vision and freeing policymaking from clientelistic burdens. If relations of patronage are minimized, then the leadership will be able to invest with a longer time horizon in mind (Booth et al. 2015).

9.3 Applicability of the Developmental State Concept in Africa

Since the framing of the original developmental state concept was largely influenced by particular South East Asian features (Amsden 1989; Evans 1995; Johnson 1982; Wade 1990), newly emerging similar strategies in Africa and the developing world cannot be entirely characterized by the same initial theories. Peter Evans (2008), for example, describes what he defines as the twenty-first-century developmental state and elaborates on a concept that varies in key ways from the original ideas.

For decades, the concept of a developmental state was thought to be transferable to other regions except Africa due to the pervasive nature of clientelism and the atypical levels of rent-seeking in numerous African economies. However, there has been dissent around the topic. For example, Thandika Mkandawire (2001) has

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[1]The basic features of true bureaucracies as defined by Max Weber are whether recruitments for public positions involve impersonal meritocratic criteria and whether those recruited might look forward to long-term career rewards approximating those of the private sector.

refuted previous allegations that developmental strategies do not have the potential to be implemented in Africa. Côte d'Ivoire from 1960 to 1975, Malawi from 1964 to 1978, Kenya from 1965 to 1975, and Tanzania from 1967 to 1978 have already been analyzed regarding their match with the developmental state concept, along with their present counterparts, Ethiopia, Botswana, and Rwanda (Kelsall and Booth 2010). The greatest concern remains whether by following East Asian efforts, African economies will be able to overcome their developmental problems (Meyns and Musamba 2010).

For African states concentrating their national energies towards growth, Ovadia (2015) stresses that a lack of analogous historical settings could be a huge problem. Current circumstances are very different from that of the 1980s when there was a massive wage gap between the then-developed countries and Asia. Nowadays, there is no similar discrepancy; therefore, it will be much harder for 'the bottom billion' to break into global markets (Collier 2007). Leftwich (2008) also identifies contingent historical factors like an intense external threat that was present in nearly all cases of the East Asian model (such as the People's Republic of China menacing the island of Taiwan across the strait or the constant threat against the Republic of Korea from its northern neighbor).

One of the most important features of Asian models is a dynamic approach to tackling problems and constant trial and error in seeking applicable solutions (Ohno and Ohno 2013). Therefore, nowadays we can define developmental states in Africa as countries where there is a systemic commitment to adaption: trying developmental solutions and then swiftly modifying the original idea if it fails to perform. As David Booth (2015: 8) points out, good policies are heterodox and iterative and they are 'stumbled upon, in a process of searching for solutions to particular problems.'

The previous section identified some basic characteristics shared by East Asian countries and comparable developmental states of the twenty-first century in order to support the illustrative case study, Rwanda, which according to this criteria may be considered a developmental regime. Let us detail the reasons.

9.4 Illustrative Case Study: Rwanda

What makes Rwanda profoundly different from any other developmental state is its unique post-genocidal setting. The 1994 events set the scene for a dramatic change of performance. The strategy chosen by the leadership of the Rwandan Patriotic Front (RPF) transformed a devastated war-torn country into a bright example of dynamic and mostly uninterrupted development that is much sought after in other regions of sub-Saharan Africa.

The case of Rwanda is especially interesting from a developmental economist's point of view due to the government's unorthodox approach towards the investment community, using unconventional institutional frameworks and strong governmental influence. The reasons for its successful transformation are multiple, and these are examined by highlighting a few major elements. I detail post-genocidal institutional arrangements that have permitted and facilitated sustainable growth, as well as the socioeconomic factors that have enabled the government to pursue its policy trajectory.

9.4.1 Aftermath of the Genocide: Tabula Rasa?

Post-conflict situations are highly fluid—about 40 % of the affected countries backslide into conflict within a decade (Collier et al. 2008), and even more suffer further sporadic flare-ups of violence (Brown et al. 2008). However, the reverse also holds true, that is, a previously failing state is more likely to achieve a sustained turnaround if it has recently emerged from civil war (Collier 2007: 70). Rwanda seems to justify the latter hypothesis: genocide and civil war opened a 'window of opportunity' for deep-seated reforms (Junne and Verkoren 2005: 6). The 1994 genocide and civil war were perceived as an imminent and overwhelming threat to the very existence of Rwandan society so much so that stakeholders agreed on the necessity for implementing substantial social, political, and economic restructuring to prevent relapsing into conflict. This perception resonates with Leftwich's (2008) observation regarding contingent historical factors prevailing at the time of the emergence of East Asian developmental states. Genocide represented a threat (although not external) that facilitated the unification of Rwandan society and the emergence of a leadership with a developmental vision.

In 1994, at least 10 % of the population (approximately 800,000 people) died in a few months, and almost four times as many (around half the population) deserted their homes and fled to neighboring countries. Social and economic costs were staggering (Lopez et al. 2004). The destruction of infrastructure, development facilities, human, and natural resources as well as the fear of recurring violence created an especially large room for manoeuvre for victorious forces (Rwandan Patriotic Front, hereinafter referred to as RPF). Rwandans were willing to tolerate and even praise unconventional methods if they brought the promise of stability and growth.

Since Rwanda and its neighbor Burundi display an extraordinary level of resemblance culturally, historically, and geographically (as small, landlocked countries with few resources and virtually the same ethnic composition), I review the causes behind the two countries' diverging paths of state effectiveness and governance.

9.4.2 Genocide: The 'Big Push' that Moved Rwanda Out of the High Corruption Equilibrium?

State effectiveness and governance were of a comparable level before the civil war in Burundi (1993–2004) and genocide in Rwanda (1994) (Chemouni 2014). But while nowadays the Government of Rwanda is often praised for its high degree of organization, its capacity to manage resources efficiently, and its focus on delivering results (Bozzini 2014), Burundi is trapped in corruption and clientelism (Nkurunziza and Ngaruko 2008). This might suggest that the Rwandan genocide was a landmark event that changed the course of politics and strategies in the country.

In developing countries, tax revenues are so low that the funding of politics inevitably becomes clientelistic. However, the degree of using rents to buy elites' loyalty or for paying off debts to supporters largely defines whether the state is able to provide public goods that are of importance for sustained growth (Booth et al. 2015). In Burundi, rent-seeking by a small group had become the underlying concern of successive governments, thus perpetuating underdevelopment (Barros 2012). Until 2004, a narrow political elite distorted Burundi's economy by creating inefficient state firms (used as sources of rent), limiting access to education paving the way for entry into the army or civil services (both careers representing possibilities of appropriating rents) and effectuating a trade policy where ever-changing tariffs and administrative requirements also generated rents. At the same time, the provision of quality public goods was neglected or reserved for elite members of Burundi society. The system was stable and survived several civil wars because it was supported by the army[2] and due to the elites' short-sighted way of thinking that reproduced itself over successive generations being used to pervert the economic logic. Pierre Nkurunziza and his party, CNDD-FDD, representing the Hutu majority, took power from previous Tutsi minority leaders following the 2005 elections. Although the leadership has changed, corruption remains a significant problem to this day. Burundi was ranked 159 out of 176 countries surveyed in Transparency International's 2014 Corruption Perceptions Index (against 49 out of 176 for Rwanda), making it the most corrupt country in East Africa (Transparency International 2014). Forty-nine per cent of respondents in Burundi who participated in the 2013 Global Corruption Barometer felt that public officials and civil servants were corrupt/extremely corrupt, 82 % felt the same regarding the police, and 69 % considered the judiciary corrupt/extremely corrupt (against Rwanda's 9, 21, and 16 %, respectively, in the same survey) (Global Corruption Barometer 2013).

Rwanda was praised for its exceptional capacity to implement targeted policies a few years after the genocide. What caused the massive turnaround compared to previous years when Rwanda followed a course comparable with Burundi?

Practically, the entire Rwandan elite of the previous Habyarimana regime, which was used to methods of rent-seeking[3] similar to that in Burundi, fled the country in

[2]Collier and Gunning (2008) have identified a so-called African intertemporal syndrome, when the government transfers resources from the future to the present, sacrificing future incomes for present gains. Burundi is a classic example of this syndrome between 1960 and 2000. Adam and O'Connell (1999) emphasize that these predatory systems are sustainable if members of the governing elite get enough income to ignore long-term negative effects of their strategy on the country's economy (since it is not in their interest to take those effects into account).

[3]Businesses needed 'godfathers' working in the civil service or in the military to be lucrative. In return for their godfathers' services, these businesses financed the Rwandan political elite.

the summer of 1994. On returning to Rwanda later, they were not in a position to effectively influence the leadership's strategic decisions. Any Hutu refugee crossing the Rwandan border to return to the country was fully aware of the nature of the new Tutsi leadership and willing to accept its terms of engagement in return for the homecoming. At the same time, Tutsi families who had fled Rwanda after the Hutu Revolution in 1959–1961 (that ended centuries of Tutsi political dominance) started returning from exile in large numbers after the genocide, hoping that the mostly Tutsi-led victorious RPF would ensure their safety. They fully supported the new regime.

The post-1994 Rwandan leadership had to build an operating state from scratch with a new system of administration, education, army, etc. This renaissance brought a meaningful transformation of the automatisms of corruption, nepotism, and patronage. As Collier (2002) concluded, once corruption becomes widespread, it is not enough to reverse the policies that caused it. Corrupt societies need a big push, a shock to get out of the high-corruption equilibrium (Collier 2002). Burundi has never faced an all-encompassing purge threatening the very existence of its society on a scale comparable to the Rwandan genocide. In contrast, genocide completely transformed Rwandan society and represented a shock that contributed to moving out of the high-corruption equilibrium.

Naturally, the myopic rent-seeking methods could have been rebuilt by the RPF leadership after assuming control of the whole country, especially as a significant part of the new administration expected a swift return to 'traditional' methods of governance including the extensive use of bribes. But the new regime chose a different approach. The firm anti-corruption stance adopted early on from 1994 would probably have been a lot harder to implement if it was taking over an operating country. Building an effective arrangement from square one, as happened in Rwanda, is in many ways easier than trying to transform an existing system with its automated clientelistic habits, as will be needed in Burundi.

9.4.3 An Effective Public Service

One of the most important aspects of a developmental state is whether the government is able to build a highly effective, specialist public service. Since corruption can have serious impacts on public service,[4] having a lower corruption level can be considered an enabling factor for establishing a meritocratic and competent bureaucracy. The current leadership fought against corruption from the moment it took control of Rwanda. The fact that Hutus and Tutsis, close friends and foes, government ministers, and simple civil servants were forced to resign, dismissed, or

[4]'Corrupt officials usually cannot steal cash directly, as that would be easily detected; instead, they need to go through a variety of more convoluted procedures to extract rents. These convoluted procedures themselves may induce inefficiencies…' (Pande and Olken 2012: 16).

prosecuted when accused of involvement in corruption cases during the last 20 years, shows determination and unbiased intentions.[5] This permanent anti-corruption crusade (Mwenda 2005) resulted in numerous enemies and defectors: An interviewee in Stephen Kinzer's (2008: 222) book suggests that—among others—Rwanda's first post-genocide president, Pasteur Bizimungu, as well as several high-ranking members of successive governments since 1994, turned against the regime because of its unbending approach to corruption. It is very difficult to convince politicians who were 'raised' buying political support in previous regimes to follow this new logic. According to another interviewee, there is resentment among many who stayed: Top military and police officers think the Rwandan leadership deprives them of their lawful share of RPF's victory by preventing individual enrichment (Booth and Golooba-Mutebi 2012a).

There are practical reasons that might explain this relentless fight. The mostly Tutsi administration[6] has attempted to win the support of Hutu masses (about 84–85 % of the population today) by providing essential public goods and services to ordinary citizens. Replacing the favoritism of a narrow elite with the provision of benefits to ordinary people is a new form of political survival strategy (Tangri and Mwenda 2013). The assumption is that if progress takes place fast enough, a new generation will emerge which is capable of fully assuming its national identity instead of emphasizing the ethnic one that divided them in the past (Booth and Golooba-Mutebi 2012b). As President Paul Kagame (2009:4) reflected in his essay 'The backbone of a new Rwanda'[7]: 'We decided after our liberation struggle that if we could develop economically, then there might not be the basis for conflict.'

If regime legitimacy and national unity depend largely on quality services, the government needs effective public institutions resting on performance-based appointments and the lowest possible level of corruption. The Rwandan civil service has earned a reputation for its honesty and proficiency. When recruiting or promoting technical staff or low- to middle-ranking civil servants, merit is definitely a primary factor[8] (Bozzini 2014). The government has also engaged in an impressive array of public sector reforms to make the bureaucracy more efficient and more responsive to Rwandan citizens' and other users' needs (Karega 2006). A large-scale downsizing of the public sector with more than 12,000 employees dismissed or removed from the payrolls (Wyatt et al. 2000) took place during 1998–1999. Several comprehensive pay reforms took effect alongside the decentralization process (Broadbent 2009). All this is in line with the government's idea that a 'capable state needs to be able to provide efficient and effective services to the

[5]Some researchers are skeptical and point out that mentioning corruption charges is an exceptionally effective and swift method for 'removing personnel who are out of line politically' (Bertelsmann Foundation 2012: 26).

[6]This subject will be discussed in more detail later in Sect. 9.4.5.

[7]Published in the book *In the River They Swim: Essays from Around the World on Enterprise Solutions to Poverty.*

[8]'Top officials tend to be politically appointed, as is customary in most countries…' (Bozzini 2014: 18).

people' (Republic of Rwanda 2007: 6). The government was assisted in its capacity building by the World Bank Multi Sector Capacity Building Project (MSCBP) from 2005, and the reform process itself is not over. Recently (from June 2013 to February 2014), the Singapore Cooperation Enterprise, a Singaporean governmental organization, reviewed several public institutions in Rwanda, and since it found shortcomings and gaps, the Rwandan government launched a bureaucracy restructuring campaign in August 2014. I remember discussing this feature of constant transformation and my Rwandan friend's spontaneous reaction delivered with a smile: 'In Rwanda, we change everything.' This is one of the most important qualities of a developmental state: keep building it iteratively, trying new solutions that work out better.

Since standards of entry are rigorous and members of the administrative elite are aware of their leading role (Onis 1991) in shaping ordinary Rwandans' lives for the better, most bureaucrats have a sense of a mission and identify themselves with national goals.

9.4.4 Developmental Leadership Closely Connected to the Business Sector

As mentioned earlier, Rwanda is a small, landlocked country, with low historic investments in education, and compared to some other African countries, it is also relatively poorly endowed in minerals, though the existing mineral resources are of high relevance for its economic development. These drawbacks were coupled with chronically weak local private enterprises and foreign direct investment that only changed for the worse after the genocide and civil war in 1994 (Kelsall and Booth 2010). If it hoped to succeed in international markets, the new leadership in 1994 had to start designing a system that compensated not only the immutable natural handicaps but also enabled Marxian 'primitive accumulation' to make up for the deficiencies of the domestic private sector and lack of foreign investments.

In Rwanda, the government operates three business conglomerates to attract international investors and for boosting the local private sector. The development-oriented political management is interrelated to Rwanda's business elite through these holding companies. Rwanda also qualifies as a developmental state because its development-oriented leadership benefits from privileged and synergistic relations between state-owned enterprises and the international/local entrepreneurial elite.

The largest conglomerate is Tri-Star Investments (rebranded Crystal Ventures Ltd., abbreviated as CVL in 2009). This conglomerate has become one of the most effective rent-centralization agencies in sub-Saharan Africa owned by the ruling party, initially using its resources to stabilize the country by fulfilling its elementary socioeconomic needs. Later, the private holding company used its financial resources to carry out socially and economically profitable projects and in line with the government's strategic ideas about moving up the value chain and gradually turning the country into an IT-hub in East Africa, investing in areas that are indispensable for long-term economic development in Rwanda. CVL operates according to private sector rules, but priority is given to projects serving social goals (Booth and Golooba-Mutebi 2011).

Although CVL's subsidiaries work as private companies, in the beginning they were usually operated by party members with no or little business experience. Therefore, profitability varies from sector to sector, and depends on the managerial staff. Since the final aim is to create subsidiaries that are attractive partners for international investors, management as well as operational standards have been moving a lot towards private sector norms. The recruitment strategy reflects this attitude. CVL subsidiaries hire internationally acknowledged and qualified professionals and pay them high salaries; they have also been trying to attract valuable members of the Rwandan diaspora to move back to the country.

CVL's subsidiary companies usually enter sectors that were demolished during the genocide or become pioneers in new areas of the domestic economy that do not seem to attract either domestic or international companies. By entering sectors such as road building, mobile telephony network development, fruit processing, or security services where failure amounts to a costly lesson for the pioneer, CVL decreases learning costs for foreign and local private investors who follow.

The initial steps of mobile communication network building illustrate this method. Mobile telephony networks were initially financed by a Tri-Star Investment company (TSI) because no service provider saw the potential to gain enough subscribers to run a profitable business in Rwanda. TSI's investment was persuasive: South African MTN entered the Rwandan market, and from a 26 % share in 1998, it became a majority shareholder possessing 55 % of the network by 2007 and 80 % by 2011, with CVL holding only 20 % (Crisafulli and Redmond 2012: Location 2,401). This is only one of the many examples when a TSI/CVL investment has demonstrated effectiveness and managed to pull local or foreign entrepreneurs to an area deemed of paramount importance for national economic development (Booth and Golooba-Mutebi 2011). TSI/CVL activities have contributed to making the necessary leap from pre-capitalism to capitalism. By absorbing learning costs in a risky area, the long and painful process of primitive accumulation accelerates and entrepreneurial activities are encouraged. Rents can become a source of finance to overcome capital scarcity (Elsenhans 2004) hindering the development of capitalism (as no investor is willing to take a risk as a newcomer in that business area). Through state-owned enterprises, the Rwandan government has been acting as a magnet for further investments. It has used a large part of government-owned corporations' revenues to realize entrepreneurial projects that could increase the pace of development.

Since local companies are supposed to get capital from risk-averse African banks and become successful in sectors where competence takes time, without CVL absorbing initial learning costs, local actors would not have been able to compete with experienced capital-abundant international incumbents. Therefore, in sectors such as road building and construction, CVL has used its financial resources to diminish local companies' learning costs and risks, so that these companies become real competitors for international actors in the same area.

Supporting local entrepreneurship is of prime importance for the government. It expands the tax base and decreases aid dependence but it also shifts the Rwandan mind-set towards self-sustainable economic development. President Paul Kagame emphasizes that he wants to make entrepreneurship the backbone of Rwandan society. He claims that supporting entrepreneurship is the surest way to 'unlock people's minds, to allow innovation to take place and to enable people to exercise their talents' (Kagame 2009: 4).

Accordingly, the government gives high priority to fostering entrepreneurship, for example, by providing access to loans, building infrastructure, training managers, and easing administrative requirements. Rwanda uses the World Bank's 'Doing Business' report as a tool to shape its local business environment according to good business-regulation practices identified worldwide. Taking over methods like electronic business registration makes Rwanda an appealing country to start a business, and constant improvements in the business environment earned the country 'Africa's top reformer' title in the World Bank's Doing Business Survey (2014). In Rwanda, you can start a business in as few as three days compared to six days in the United States and 30 and 32 days, respectively, in Kenya and Uganda. Rwanda is supporting local entrepreneurship massively to create an entrepreneurial mind-set in order to make Rwandan people take full responsibility for the country's development (Rwanda Vision 2020: 8). In creating an environment that enables entrepreneurs to flourish, the Rwandan government envisions a society very different from that of pre-1994 Rwanda, where civil service jobs represented the highest achievement. Nowadays, if one asks a young Rwandan on the street what he or she wants to do, one can be sure that most of them want to start their own businesses and move into the private sector. This can be a promising way of sustaining the rapid economic growth that the country has experienced during the last decade.

Coming back to the government's developmental strategy, there is another important conglomerate worth mentioning, the army's investment arm: Horizon Group. Horizon Group is a holding company run as a private firm; its CEO is seconded by the army. It first established a construction subsidiary that built irrigation canals, coffee washing stations, a cassava production complex, and a milk factory. Later, Horizon's subsidiaries carried out complete urban development projects and started taking part in pyrethrum processing (its dried flower heads are used to produce natural insecticides). One of Horizon's subsidiaries, Horizon Logistics, is gradually taking over the logistics supply for Rwandan peacekeepers from several international providers. Horizon Group's subsidiaries are in many ways similar to CVL branches: They are private companies and hire along the same lines of professional quality as CVL. According to the group's Web site, its operations are defined as much by achieving certain social and political objectives as by profitability (www.horizongroup.rw).

Another element of the specific Rwandan developmental system is the Rwanda Investment Group (RIG) established in 2006. Bigger projects are sometimes difficult to finance in the underdeveloped Rwandan capital market. RIG is a cooperation between state and private actors, a joint stock company that connects well-endowed and known businesspeople of Rwandan origin with major state-funding institutes in Rwanda. In 2012, it had 41 shareholders: among them 31 individuals, four middle-sized companies, and six institutional investors (Rwandan Development Bank, Rwanda assurance companies, CVL, etc.). RIG is actively raising capital through international investors, and by entering stock markets to sell shares.

RIG is supposed to raise enough capital (without help from international capital markets or foreign banks with Rwandan subsidiaries) for promising projects that require a certain 'economic patriotism'. RIG took a leading role in privatizing the biggest cement-producing company, CIMERWA, when the company needed a capital injection. It became a majority shareholder in CIMERWA with a 90 % stake. RIG later supported the extraction of methane around Lake Kivu as well as peat extraction since it could solve Rwanda's growing hunger for electricity. It also took part in financing the building of the Kigali Industrial Park (rig.co.rw).

9.4.5 Financing Politics: Business and Politics Intertwined

In several African countries, policymaking focuses on creating rents to allocate to supporters and to finance politics instead of focusing on public goods. However, a developmental state is characterized by a longer time horizon. The Rwandan regime has CVL, Horizon Group, and the Rwanda Investment Group that play important roles in financing politics. Thus, the Rwandan leadership is freed from ephemeral clientelistic burdens and can invest with a longer time horizon in mind.

CVL, with 7,000 staff members, is the second most important employer after the state and one of the largest business ventures in Rwanda. The dividends paid after the holdings' shares together with individual members' payments fill RPF's cash account (Booth and Golooba-Mutebi 2012b). The group's turnover in 2009 was US $ 167 million, representing over 3 % of Rwanda's GDP (Bozzini 2014). According to a *Financial Times* report (2012), RPF is one of the best-endowed political movements in the world relative to the size of the country. The same report mentions that half of the RPF-campaign (US$ 2.4 million) for the 2010 elections was financed from 'company coffers.' 'We came in when contributions fell short,' said James Musoni, minister of local government in 2012 (now minister of infrastructure). 'From the beginning, we said we should have our own resources so that we are not indebted either to business people who want favours or foreign people…' (Financial Times 2012).

The government is able to pursue its long-term objectives and invest with a longer time horizon in mind due to the linkages between business and politics and the public and private spheres; RPF's business empire frees the leadership of clientelistic obligations. The Rwandan government does not need to buy support, and it has created a system where its campaigning and politics are financed by government-owned holdings.

Whether this close link and the blurred line between the private and public sectors promote growth and productivity is contested by Gökgür (2012: 5), who argues that state-owned enterprises prevent the emergence of 'a more inclusive, broad-based and labour-intensive private sector.' Kelsall and Booth (2010) paint a different portrait: TSI/CVL, Horizon Group, and RIG have enabled the government to create a momentum, to exit from the pre-capitalist system that Rwanda was stuck in. Reality seems to prove that the Rwandan idea on centrally planned rent management through government-owned corporations positively affected economic development. The system has delivered impressive results: 20 years after the genocide, mobile phone/data coverage for Rwanda's population reached 96 % in 2011, a high-speed fiber-optic backbone network now interconnects all districts and border points of the country (Ntale et al. 2013), more than a million people managed to escape the poverty trap between 2006 and 2014, and the Rwandan National Bank's issuance of treasury bonds is a colossal success.[9]

There is another factor that facilitates the realization of the Rwandan leadership's developmental vision: The government and military are backed by 80–90 % of the population in most of its activities (Crisafulli and Redmond 2012: Location 1,499). Public trust constitutes a huge advantage: Almost the entire society genuinely shares the common vision of rebuilding the country. From peasants to government ministers, almost everyone seems confident in a collective determination to leave the past behind and concentrate on the future through stability, self-reliance, and inclusive economic growth. Rwandan leaders have the capacity to mobilize society. According to the Rwanda Reconciliation Barometer published in 2010, more than 90 % of Rwandans strongly agreed or agreed that they can trust the country's leaders to do what is in their best interest, and 82 % strongly agreed or agreed that the country's leaders care equally about all Rwandans (Rwanda Reconciliation Barometer 2010).

The government's intent to serve all citizens in Rwanda advances nationwide reconciliation and unification efforts. Nowadays, it is impolite to ask one's ethnic identity and individuals describe themselves not as Hutus or Tutsis, but as Rwandans. When asked, 70.8 % of the Rwandans strongly agreed that they would want their children to think of themselves as Rwandans, over and above any other social identity (Rwanda Reconciliation Barometer 2010).

When writing about nurturing this shared national identity, one must mention Rwandan homegrown policy solutions that use practices and beliefs that the people are able to identify with. If the government uses traditional methods and collective wisdom to mobilize people and these solutions require society-wide participation, these programs facilitate adaptation to changes that a dynamically developing

[9]In 2013, Rwanda raised US$400 million from the Eurobond it issued and in 2014, the Rwf15 billion treasury bond was oversubscribed by 232 %. By May 2015, the Rwandan government had issued its fifth treasury bond.

country inevitably faces (Kagame 2013). Girinka[10] was adapted from the traditional Rwandan practice of giving each other a cow as a symbol of friendship (and sometimes simply giving a cow to someone in need as an act of solidarity). Nowadays, the government gives every poor family a cow in the framework of a pro-poor targeted poverty alleviation program that was introduced in 2006. It focuses on tackling several problems simultaneously: A cow improves the family's diet, generates extra income, increases fertilizers for crops, and kicks in agricultural productivity (Rwanda United Nations Development Assistance Plan 2013). The Girinka program has given around 200,000 cows and transformed a number of previously poor and malnourished Rwandans into entrepreneurs (Ezeanya 2014). When Girinka began in 2006, childhood malnutrition across the country stood at an average of 43 %; six years later, this figure had dropped to 21 %. Girinka has definitely contributed to cutting the record of child malnutrition by more than half (Burd 2014).

Another illustration of homegrown initiatives is Imihigo or performance contracts. Imihigo describes a pre-colonial cultural practice in Rwanda, where an individual sets targets to be met within a specific period of time. As a result of the Rwandan government's decentralization policy, local governments have become responsible for implementing more development programs. Therefore, the government needed a tool that ensured speed and quality of execution. The Rwandan leadership decided to revive the tradition of performance contracts. From 2006 on, each year the President of Rwanda, local government institutions, and line ministries sign binding contracts for one year. Local authorities and ministries are held accountable for their targets (Versailles 2012). The good thing about Imihigo is that it instills the culture of regular performance evaluation. Since 2006, the performance of the districts in voluntarily set objectives under the Imihigo program has greatly improved and Imihigo has been expanding further down to household levels.

These two examples[11] prove that the Rwandan government realized the need to incorporate indigenous knowledge in its development strategy for it to resonate with most citizens and to bring them on board.

Although homegrown schemes and the government enjoy great popularity, partly since Rwandans equally benefit from them, political authority does not yet

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[10]The program is based on the premise that providing a dairy cow to a poor household helps to improve its livelihood. Since its introduction in 2006, more than 203,000 families have received cows. The target is to reach 350,000 Rwandese families by 2017 (Ministry of Agriculture and Animal Resources 2015).

[11]Together with *Ubudehe* (a participatory problem-solving mechanism reintroduced in 2001, based on the long-standing Rwandan practice and culture of collective action and mutual support to solve problems within a community), *Umuganda* (monthly community work based on the tradition that members of the community will call upon their family, friends, and neighbors to help them complete a difficult task), or *Gacaca* (in 2002, Gacaca courts were revived to process criminal cases related to the 1994 genocide. Contemporary *Gacaca* draws inspiration from the traditional model by replicating a local community-based justice system with the aim of restoring the social fabric of society), etc. (*Source* Rwandapedia.rw).

reflect the ideal of equal opportunity. A 2008 secret cable message to the US Secretary of State titled, 'Ethnicity in Rwanda—Who governs the country' states: 'An analysis of the ethnic breakdown of the current Rwandan government shows Tutsis hold a preponderant percentage of senior positions. Hutus in very senior positions often hold relatively little real authority, and are commonly "twinned" with senior Tutsis who exercise real power. The military and security agencies are controlled by Tutsis, generally English speakers who grew up as refugees with President Kagame in Uganda. The 28-member cabinet is evenly split among Tutsis and Hutus, but most key ministries are in the hands of Tutsis…' (Wikileaks 2008). Nevertheless, this system is not perpetualized through education and recruitment; therefore, it might become more inclusive as time goes by.[12] Not to mention that important Hutu business and professional elites have at least tacitly accepted this arrangement (Golooba-Mutebi and Booth 2013).

9.5 Conclusion: Is This Developmental Vision Sustainable?

Rwanda qualifies as a developmental state for several reasons. Its leadership has a clearly articulated developmental vision (Rwanda Vision 2020) that is a real point of reference and not just a lip statement. Rwandan elites are different from the non-developmental regime's elites in attitude. They are not trying to stay in office by distributing privileges, but by demonstrating that they are able to produce more and better public goods for the Rwandan people. The public and private sectors are intertwined through the ruling party's holdings that initiate investments in areas that are key to further economic development. The income generated from these consortia frees the Rwandan leadership from clientelistic burdens and makes the ruling party one of the best-endowed political organizations. These government-owned corporations have also played a big role in transforming the post-1994 pre-capitalist setting. The genocide itself opened a window of opportunity for national unification and rebuilding; it also contributed to moving the country out of its high-corruption equilibrium. Nowadays, Rwanda boasts of one of the lowest corruption levels in East Africa, a highly effective and meritocratic public service as well as an investor-friendly climate favoring an entrepreneurial mind-set.

To summarize, the Rwandan developmental model builds on learnings from its East Asian predecessors, but above all, its strength lies in its capacity to combine classic developmental tools with indigenous knowledge. By massively supporting local entrepreneurship and creating an entrepreneurial mind-set, the government

[12]The government, especially the President of Rwanda Paul Kagame, is often criticized abroad for narrowing the political space. The political settlement in Rwanda indeed excludes elite groups that do not accept a ban on ethnic politics as well as genocide perpetrators or ideologists of the genocide. Thus, power is shared among political groups that agree with the government's boycott of ethnic sectarianism.

nurtures a nationwide sense of vision that makes ordinary Rwandans feel that they have a unique opportunity to change their country for the better, makes them feel part of Rwanda Inc., and this makes it easier for them to embrace changes that are inevitable as the country is struggling to move up the value chain.[13]

The dynamic economic development that pulled more than a million Rwandans out of poverty provides a wide base of supporters. Nevertheless, since this dynamism is the cornerstone of the current leadership's legitimacy, an economic recession or slowdown could be destabilizing and politically devastating (Cooke 2011). Another factor that questions the sustainability of development is the dependence of the whole system on the president. As Crisafulli and Redmond (2012) point out, Paul Kagame is a one-of-a-kind leader and his excellent leadership and organizational qualities will make succession very problematic. South Africa faced a similar challenge in the presidential succession to the very popular Nelson Mandela. Since Rwandan institutions are relatively young, it is untested whether they are grounded enough and it is doubtful if their efficiency has become a culture by now. Therefore, several initiatives may not last beyond President Kagame.

Is following a Rwandan model a viable alternative for other developing countries in Africa? Rwanda's unique post-genocidal setting influenced not only the leadership's stance on corruption and clientelism but it also created a tabula rasa where imminent and deep-seated change became the only desirable option. These are country-specific circumstances. However, the institutions and methods to mobilize people to take part in the long-term development of their country can and should be imitated, since strategies imported from outside combined with home-grown solutions are more readily and rapidly adopted.

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[13]Using business processes and resources to produce higher margin (highly profitable) products.

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Chapter 10
Artisanal Mining in Rwanda: The Trade-Off Between Entrepreneurial Activity and Environmental Impact

Jan Macháček and Milada Dušková

Abstract Rwanda is a central African country that is relatively rich in 3T minerals (tungsten, tin, and tantalum) which are necessary for electrical engineering products. These minerals are very important for overall Rwandan exports because of the heightened demand for them in global markets. Mineral mining in Rwanda is conducted mainly as artisanal and small-scale mining (ASM). This type of mining without mechanization can mostly be found in developing countries. This chapter discusses ASM in the Rutsiro area (western Rwanda), which involves using a stream of water in which the minerals are washed. It illustrates how the mining of 3T minerals provides positive business opportunities for the local population, while it has negative impacts on the environment. Problems with erosion that deflect the flow of rivers and increase the levels of suspension and sedimentation in river basins are the biggest environmental problems connected with ASM. Despite these problems, ASM provides a possibility of increasing economic growth and securing the basic needs of local inhabitants. The earnings of the workers who mine in small groups are higher compared to incomes earned in the agricultural sector. The acquired incomes contribute to improved living standards of the workers. Higher available incomes also create opportunities for businesses in areas such as trade, transport, construction, and provision of services. Thus, the economic importance of mining for Rwanda‘s economy is evident. In 2013, Rwanda exported almost 2,500 tons of tantalum—equivalent to 28 % of the global production. Mining had a share of 30 % in the total exports during the last 5 years, amounting to a value of about US$ 230 million per year.

Keywords Artisanal and small-scale mining · Erosion · Deforestation · Water · Rwanda · Business opportunities

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10.1 Introduction

Rwanda is a small East African state, known for its recent history connected to the genocide that had devastating consequences, among others, for the entire infrastructure of the country. Rwanda still ranks among the developing countries, but is making an effort to change this by gradually implementing development priorities which were started in 1998. There is an ambitious government program which focuses on the transformation of the agrarian economy to one in which industry and services will play a greater role. Reaching the level of middle-income countries requires an increase in government revenues from the export of commodities such as tea, coffee, and especially, raw materials. Rwanda is relatively rich in tungsten, coltan (columbite–tantalite), tin, and gold (Rwanda Environment Management Authority 2005). These raw materials are mined in Rwanda in a special way known as artisanal and small-scale mining (ASM). While providing financial subsistence to many people, the ASM technique has many negative impacts on the structure of the landscape, especially on the hydrographic network in the mining area.

The extraction of minerals leads to the degradation of land; it negatively affects water flows and contributes to deteriorating living conditions of the population that is predominantly dependent on agricultural activities. However, despite the negative impacts on the environment, additional revenues from the mining of minerals allow for the creation of extra business opportunities for the local population, especially from capital accumulation and SME development. Thus, the negative impacts of mining are balanced by the positive impacts in the form of economic development and generation of new job opportunities for the local people (Hilson 2002).

This chapter focuses on the often neglected ASM-related negative impacts on the environment. It also discusses new opportunities for economic growth and business development for the local people. Outlining this important trade-off is the main contribution of this chapter. The chapter discusses the research methods and gives details of a field investigation of ASM with respect to entrepreneurship and its relationship to the environment. For a better understanding of the problem, relevant context information on Rwanda and the specific case study region are provided. Furthermore, it also discusses the possibilities of entrepreneurship in the area of interest and opportunities for further development in Rwanda.

10.2 Methods

The research is based on data collected in the field during 2012–2013. During this field study, 11 in-depth interviews with miners at the site Rutsiro, in the administrative unit of Muyira, were conducted. The miners were asked about their way of working, earnings, perceptions of threats to the environment by mining, and job opportunities associated with mining. Another source of data was secondary documents of Rwandan government agencies (Rwanda Environment Management

Authority, Rwanda Development Board, Rwanda Geology and Mining Authority, Rwanda National Resources Authority), international organizations (UNEP), and other specialized studies.

Results of our own morphographic analysis (mapping of the mining landscape which shows the classification of the landscape relief) from our field research carried out in 2012 were also used. This analysis represents a part of a research plan with the goal of characterizing the intensity of the anthropogenic (that is, caused or produced by humans) processes conditioned by the extraction of raw materials, especially tungsten ore, in the Rutsiro mining area (in Manihira municipality, Rutsiro district, western Rwanda province). Mining in this area is carried out by the Natural Resources Development, Ltd. (NRD), which owns exploration concessions in this locality. This is subcontracted to miners who receive payments derived from the extracted minerals. The research was carried out in cooperation with mining companies and together with experts from the Department of Geography of the National University of Rwanda in Butare. At present, the geomorphological mapping of the area is accompanied by a morphometric analysis of the shape of the areas affected by mining and a comparison with their state as recorded in 2012. The rate of change in the landscape is determined by comparing detailed maps, plans, and aerial photographs of the area since the beginning of the extraction in the 1950s. In addition, a detailed geomorphological map of the area is created that shows anthropogenic effects on surface relief, together with an evaluation of the impact of mining on the environment.

A major challenge for this study was developing communication with the local people. Some interviewees, particularly employees of the mining company, had reservations and even reluctance to communicate with the trainee. In other cases, the workers used the opportunity to voice their needs for new working tools and protective clothing. Problems with communication also included limitations as the interviews had to be translated from the language Kinyarwanda. Without an interpreter, the authors could only communicate with the miners who spoke basic English which limited access to data.

10.3 Artisanal and Small-Scale Mining (ASM)

Artisanal and small-scale mining (ASM) is a typical method of extraction of raw materials, mostly in the developing world. Miners use primitive tools and mostly work in unsafe mining pits or shafts. Their equipment consists of hammers, shovels, flashlights, and, in some cases, protective helmets. There is no mechanized equipment used in the mines, and the miners lack even basic knowledge about mining. For these reasons, the term ‘medieval’ mining is also used, which perhaps better reflects the nature of this method of mining. When compared to the Middle Ages, there are hardly any differences in safety standards or in the technical methods used. In some cases, one can even say that medieval mining, as we know it in Czech land, was in many ways more advanced and technically more sophisticated than the current mining industry in the developing world.

10.4 Selected Geographical Characteristics of Rwanda

Rwanda is divided by a watershed between the catchment areas of river Nile and river Congo. The larger of these is the catchment area of the Nile, which drains 75.5 % of the country's area (19,876 km^2) and drains over 90 % of all its watercourses. Despite the fact that Rwanda is a mostly mountainous state, waterlogged, marshy areas occupy almost 11 % of its territory. The largest rivers are Nyabarongo, Akagera, Base, Muvuba, Koko, and Rusizi.

The watercourses are fed by atmospheric precipitation, which is spatially unevenly distributed, with the volume decreasing from the west to the east. In the mountainous areas in the west, the annual rainfall goes up to 1,935 mm, while the annual rainfall on the savannah in the east is much lower (840 mm a year). The annual precipitation mode is affected by its proximity to the equator, which results in seasonal occurrences of a rainy period (March–May and November–December). The main dry season begins in mid-May and lasts for approximately 100 days, till the end of August (Haidula et al. 2011).

The morphology of the relief reflects Rwanda's position in the central part of the East African Rift, which was formed in the tertiary era (from 66 to 258 million years ago) as a result of the divergent movement of the Somali subplate from the African plate. The young relief-making processes created a distinctively fold-block relief with rugged uplands and highlands with very steep inclined slopes, which gradually pass to the alluvial plain of river Akagera in the east.

The fold-block and fold structures of the Proterozoic metamorphic rocks in the western and central parts of Rwanda are permeated by granite and pegmatite complexes, which are rich in polymetallic ores (cassiterite, tungsten, tantalum, cobalt, niobium, and corundum). It is these products that represent strategic export commodities, the income from which the Rwandan government wants to use to finance an ambitious project to develop the country in order to be classified as a developed country by 2020 (Rwanda Development Board 2012).

The increasing importance of the mining industry in recent years is evidenced by the doubling of production volumes in the mining of tungsten and tantalum. The volume of cassiterite (tin)[1] tripled from 473 tons in 2009 to 1,300 tons in 2010. Rwanda's strong position as a global raw material supplier can be proved by the fact that 9 % of the coltan (columbite–tantalit)[2] imported to Europe comes from this

[1]Tin is used for a number of purposes from coatings for cans to electronic circuits.

[2]The mineral group columbite–tantalite is best known as *coltan*. Coltan is a black colored mixture of minerals, consisting of the oxides of niobium (extracted from colombite) and tantalum.

small country. Rwanda accounts for 15 % of the world's production as a supplier of coltan (Van Teeffelen 2012).

Based on this, it can be concluded that the extraction of minerals is an important factor in the Rwandan economy. Mining processes, however, differ from those practiced in the developed countries. The next section describes how the miners work, how they are organized and financed, and the role that extraction of minerals plays in their lives.

10.5 Case Study—Rutsiro District

Rutsiro district is one of the seven administrative units that make up the western province, located 150 km northwest from Kigali, the capital of Rwanda. The district consists of 13 other administrative sectors divided into 62 regions and 485 villages. The total area of the district is 1,157.3 km^2. This area is home to nearly 300,000 residents, of whom over 60 % are under 25 years of age. The population density is 255 inhabitants per km^2. The locality in question is in Manihira sector, Muyira residential unit, on the hillside of Kabera II (Twagiramungu 2009).

It is a mountainous area, located at an altitude of 2,400 m. Deep valleys between steep slopes with a descent of up to 30 % have developed stream bottoms filled with coarse-grained alluvium which are intersected with watercourses that—in sections with a slight longitudinal gradient—meander and create irregularly-flowing lateral riverbeds. The Rutsiro and Kanyankima rank among the largest rivers in the district. The alluvial rivers are fed by nameless streams and smaller tributaries with a stream with a steep gradient flowing down from the surrounding high ground. The original forest landscape has been deforested as a result of increasing demands on agriculture. The combination of a significant inclination of the relief and day-to-day intense rainfall makes the soil very susceptible to sheet erosion. The washed material is carried away by watercourses and causes the silting of riverbeds in the middle and lower parts of their course.

The climate of the area corresponds to mountain conditions, with an average annual temperature of 17 °C. The area belongs to the equatorial continental climate belt with four seasons, which differ mainly in terms of the amount of precipitation; temperatures vary only slightly. The temperature amplitudes between day and night are high, and in combination with high atmospheric humidity, the climate is very humid. The average annual precipitation is 1,200 mm, but the rainfall is not well spread out during the year; heavy rains alternate with days without any precipitation. The so-called long-rains season is between March and April, when about

(Footnote 2 continued)

Tantalum is the most profitable element (fetching more than 10 times the price of niobium) and is used in products ranging from electronic devices like LED lights and hard disks to weapon parts (Van Teeffelen 2012).

40–60 % of the total annual rainfall occurs. The long-rains season alternates with a season with long dry periods (between June and September) and is followed by a short-rains season from September to December. From December to March, there are short dry periods when there are days without rainfall (Ministry of Environment and Lands 2011).

In Rutsiro district, and throughout Rwanda, the main economic activity (90 % of GDP) is subsistence farming, accompanied by mining activities. The northern province is one of the richest in Rwanda in terms of minerals, specifically tungsten, tin, and coltan. The area was geologically mapped in the 1930s, but research and extraction work only began in the 1950s. At present, the location is owned by a mining company with only an exploratory concession, which is limited to 4 years. For this reason, it is not worthwhile for the company to invest in any costly mining or processing machinery in the mining area, and therefore, extraction is left to the local population, from whom the extracted ore is purchased. These amateur miners extract using the ASM technique that can be divided into two levels according to the place from where the ore-bearing rock is obtained.

On the first level, the minerals are mined on the slopes of the extraction areas in the source headwater areas of watercourses, where the naturally high energy of the flow caused by gravity is utilized. Workers mine the ore-bearing rock in narrow shafts and drifts reaching a depth of 100 m, then transport it to the water flow, and subsequently wash it using a panning technique. Since the minerals that are extracted are heavier than normal stone, they sink to the bottom where they are retained. When a worker washes all the rock that has been fetched, the watercourse is dammed at a higher position and the water is diverted somewhere else (see Fig. 10.1). The material accumulated at the place of washing is collected and the process continues. This method of extraction is unprofitable and allows the extraction of minerals of a larger size. Because of the necessity of using flowing water, many artificial channels with a system of ridges originated in the area of extraction that, along its length, are constantly destroyed, partly by the first level

Fig. 10.1 Diverted water stream. *Photograph* Diverted water stream (Macháček 2012)

Fig. 10.2 Example of ASM lateral erosion. *Photograph* Example of ASM lateral erosion (Macháček 2012)

mining technique and also by the erosion of the natural depth (gully) during day-to-day heavy rains (see Fig. 10.2).

The second level is extraction in the wide riverbed of Rutsiro. Lighter and smaller metal minerals that are not extracted in the upper course are transported as sediments and accumulate in the alluvial plains of the lower part of the watercourse. In places where the wide bed of the river is not so deep, this secondary extraction of minerals from sedimentary deposits takes place (see Fig. 10.3). Miners break off large-grained silts from the bottom of the riverbed and sluice them using a panning dish. The unconsolidated riverbanks are more susceptible to sluicing related lateral erosion, which occurs along the entire length of the watercourse in the form of bank ripping and landslides.

The ASM method also has a negative indirect effect on the hydrographic network as a result of deforestation at the mining site. Although logging is prohibited because of limited resources, deforestation often occurs when mining areas are

Fig. 10.3 Mining in an alluvial terrace. *Photograph* Mining in an alluvial terrace (Macháček 2012)

Fig. 10.4 Mineral vein located under. *Photograph* Mineral vein located under (Macháček 2012)

extended. It is not a matter of the deforestation of large areas, but rather the destruction of individual trees along the watercourse and the extraction site. If a worker follows a mineral vein located under trees, he simply fells the trees or, in better cases, undermines them (see Fig. 10.4). In these cases, the root system is damaged and the area loses its natural vegetation cover, which promotes the infiltration and accumulation of groundwater. The degraded land is more susceptible to surface erosion and open to landslides. During the mining, chemicals leak into the watercourses when the rock is sluiced. The most frequent chemical substance is arsenic, which is found in these metalliferous rocks (Twagiramungu 2009). Another danger is leaking during solvent extraction of the rock. Most of the water that is used for solvent extraction ends up in clarifying basins. These clarifying basins may leak, and chemicals such as arsenic or tungsten carbide may thus get into the soil and groundwater.

10.6 ASM as a Factor of Economic Development in Rutsiro District

Mines, particularly the concessions, may be owned by private companies, individuals, and cooperatives. In 80 % of the mines in Rwanda, so-called chief capita, or experienced miners, work, who are mostly direct employees of mining companies or cooperatives.

From a structural point of view, the cooperatives resemble smaller businesses that are owned by members of cooperatives having an equal proportion of ownership. Cooperatives must have at least 10 members working directly in the mines, or use a subcontractor working model. The subcontractor model is a type of mining where the miners are contracted by the mining company and paid for production by the mining company. The subcontractor model is typically used by foreign mining companies.

Cooperatives are grouped under the Federation des cooperatives Minieres Au Rwanda (FECOMIRWA) organizations, through which they sell their production to trading chains. FECOMIRWA assists the cooperatives in improving the efficiency of mining operations. For example, it helps train members from different mining cooperatives in mining exploitation, exploration (research and estimating mineral reserves), and mineral processing techniques. It also provides assistance in legislative areas (health and safety and environment protection) and in the fundaments of management. Through its activities, it contributes to the creation of new jobs, particularly in poor rural areas (FECOMIRWA 2015). In addition to FECOMIRWA and its activities, there are also government programs. The task force for the Rwanda Geology and Mining Authority, which is a part of the Ministry of Lands, Environment, Forestry, Water and Mines, plans to train the local population through workshops that aim at educating them about mining activities. Once the local population is trained and educated in basic geological information, it can create a cooperative group and become a small business group in the region (Watkins and Verma 2008). An additional aim is to educate and engage stakeholders in entrepreneurial activities at all levels of the mining sector such as extraction, development, and marketing (Rwanda Geology and Mining Authority 2010).

Revenues from mining for cooperatives and subcontractors are different. If a subcontractor is involved in a mining area where investments are needed (e.g., hiring of excavators or investments in safety), he has to pay 12 % tax from the production. If investments are not needed in the mining area, the subcontractor has to pay a fee of 7 % from production. If the subcontractor is a member of a cooperative, the fee is lower—5–10 %. All production is sold to FECOMIRWA for reselling to merchants (Metcalf 2015).

In most concessions owned by a private company, the business model is different. Subcontractors receive a fixed price per 1 kg of concentrate which is based on the commercial model of the company and the price in world markets. In autumn 2013, the price for 1 kg concentrate in the Rutsiro locality was as follows: 1 kg of coltan concentrate (which contains 25 % and more of coltan) was paid 25,000–30,000 RWF (approximately US$ 37–44). One kilogram of cassiterite concentrate was paid 5,000 RWF (approximately US$ 7). One kilogram of wolfram concentrate was paid 6,000–7,000 RWF (approximately US$ 9–10.5) (all prices from 2013). A group of miners (consisting of 2–10 members) is able to mine 5 kg per day. These earnings represent a relatively attractive income for the poor inhabitants living in remote rural areas of the country. Thanks to higher incomes, miners and their families can purchase, for example, a cow, which has historically been a symbol of wealth. The cow also becomes a source of additional income and provides other possible benefits. Wealthier workers can also buy more land to diversify their farming activities, or build a house with better (tin) roofs (Perks 2012). All this contributes to the economic development of the region and helps in raising the living standard of local people.

10.7 Challenges of Mining for Entrepreneurship in Rwanda

A majority of the small-scale mining communities in Rwanda can be found in remote rural areas. In these areas, mining represents one of the main sources of income for the local population and creates one of the main pillars of economic development. Small-scale mining has an effect on local economies since a major part of the profits are reused for investments in the region. Considering the fact that this is regarding as small-scale mining, its contribution to the social and economic development of the region is much bigger. Small-scale mining generates significant local purchasing power and leads to demands for goods and services, such as tools, equipment, food, infrastructure, and housing (see Fig. 10.5). Even illegal mining along with mineral smuggling can have a positive effect on the local economy and small businesses: Revenues from illegal activities come back to local communities, leading to a capital increase in society (Hentschel et al. 2002).

Currently, a reform of the mineral mining industry is underway in Rwanda. Before 2013, concessions were divided among a few international companies, which rented them from the government. Now, an opposite trend is in place. Big concessions are divided into smaller ones, and these are rented to cooperatives formed by small mining groups. This helps in fulfilling the strategic aim of the government of allowing mineral mining to smaller groups formed into cooperatives since 2002. The main idea of this plan is to make mining accessible to smaller companies such as cooperatives, unions of cooperatives, and federation of all mining institutions, thereby increasing the production of minerals in the country. By engaging independent groups of miners in the development of the mining industry, new business opportunities and support for small- and medium-sized enterprises will be achieved (Rwanda Development Board 2012). The development of cooperatives is associated with an improvement of miners' education in the area of geology. This also leads to experience and ensuring technical safety of the shafts.

Fig. 10.5 Custodian of water pump. *Photograph* Custodian of water pump (Macháček 2013)

Activities are conducted directly in the mining sites, where new knowledge can be applied instantly. In case the miners work for a big foreign company or cooperative, most of the times they work in groups of two to 10 people and every worker has to take care of a part of the mining process—digging, transfer of material, washing, and panning. At the end of a working day, the workers hand over their production and they are paid depending on the purchasing price of the minerals. These workers are contractors and therefore semi-employees of the company. The company guarantees buying of the minerals and their subsequent sale to other segments of the distribution chain. Hence, if cooperatives emerge, the possibilities of new entrepreneurial activities such as outsourcing of services also become possible.

This way of mineral mining, where mining activities are moved from bigger companies to smaller ones, is expected to bring positive changes in the development of the mining industry. Changes in organizational structure lead to larger responsibilities that are transferred to the community. They also lead to effective resource extraction. Small-scale local cooperatives contribute to profit generation in the community because complementary craft services (woodmen, tools repair, etc.) and other services (see Fig. 10.6) are needed and the local population's purchasing power improves (Hentschel et al. 2002).

At least 30 % of the miners are women and another 10 % are youth (Rwanda Geology and Mining Authority 2010). Workshops organized by governmental organizations or NGOs are aimed at showing women and youth how to run businesses. Hence, private businesses come up either in sectors related to mining or as totally new sectors in the local economy. The increasing number of miners with personal needs also leads to a growth in sales of food items in places of mining activity. In the services sector, extended possibilities of recharging cell phones are observed, because such outlying areas are in most cases non-electrified. In the field of transport, there is increasing demand for motorcycle or bicycle services between residential units. This includes both the transport of passengers as well as goods

Fig. 10.6 Bar restaurant in mining area. *Photograph* Bar restaurant in mining area (Macháček 2013)

such as charcoal or goods for local stores. Construction and infrastructure development have also improved.

Artisanal and small-scale mining takes place in more remote, poor areas and therefore can lead to uncontrolled illegal mining and to smuggling from other areas, or even from neighboring countries. Except for agriculture, mining is often the only source of income in poorer rural areas. The situation between 2010 and 2011 in neighboring Congo is an example of the importance of small-scale mining for the local economy. Illegal mining activities that took place in Walikale district were a source of finance for activities of anti-governmental rebels from the Forces Démocratiques pour la Libération du Rwanda (FLDR) group. During a meeting with local authorities in Goma, President Kabila ordered the suspension of mining activities in Walikale region to cut off the rebels' financial resources. This order lasted from October 2010 to March 2011 and had enormous socioeconomic consequences. Prohibition of mining had an immediate impact on the families of miners who were left without financial resources. Other actors touched directly by the ban were small-scale merchants and carriers, women selling products in markets, and teachers in areas around the mining areas. The impact was also clearly seen on children in schools because parents could not afford to pay the school fees. In some areas, malnutrition emerged and the incidence of disease was more frequent than before because of lack of resources for health care (Geenen 2012). The effects of the ban (which lasted only 6 months) were noted most seriously in the more remote centers where the minerals were largely distributed. Private carriers and small air companies had to interrupt their services and reduce traffic because of a shortage of commodities to transport. In more distant areas, the ban on mining also affected small-scale merchants selling electronics and small goods as they were faced with lesser demand (Geenen 2012), illustrating how mining activities are important for the economy in poor, remote rural areas. Extraction of minerals promotes local trade, contributes to the improvement of health conditions of the local population, and ensures community development.

10.8 Conclusions

As demonstrated by the case study in the Rutsiro mining area, the ASM extraction method leads to irreversible changes in the structure of the landscape, with impacts on the hydrographic network of the area. The current Rwandan government's mining policy, influenced by a fear of the power of foreign investors, does not grant long-term mining concessions that can support the mechanization of extraction and improvements in mining processes, thus leading to less environmental impacts. It can be expected that as a result of increasing global demand for strategic minerals (tin, coltan, and tungsten) which are used in the electronics industry, the environmental situation will continue to deteriorate.

The ASM method of mining causes rock erosion and land degradation. Mining activities mostly affect the original structure of the landscape and the natural hydrographic network. The most serious problems include increasing erosion, deforestation, changes in the hydrological regime of rivers, and water pollution by chemicals. Following the Rwandan policy in the mining sector and increasing global demand for minerals, it is expected that the structure of the landscape in the mining sites will continue to worsen.

This chapter also explored the trade-off between the issues of extraction of minerals, their environmental impact, and development of entrepreneurship. Inhabitants of remote, mostly poor rural areas are by and large engaged in subsistence production and are closely linked to their land on which they grow basic foods. The surplus is sold in the market, extending the possibility of generating extra incomes. Otherwise, agriculture oftentimes represents the only source of income for the local population. However, a different situation occurs in areas which are rich in minerals, where mining activity has a long tradition. In such areas, livelihood activities related to farming are accompanied by incomes from extraction of minerals. However, mineral extraction is associated with negative impacts on the environment such as erosion, deforestation, and contamination of water streams. Due to such inconsiderate mining, agricultural land on which the local people depend for their livelihood is gradually deteriorating.

In spite of soil degradation, mineral mining also has some positive aspects. Income from the mining of minerals is used for improving the living standards of many people. People working directly in mining have higher profits and can afford to buy livestock as long-term investment or get better housing. Mining activities also lead to the creation of new employment opportunities and the development of infrastructure. The involvement of miners in cooperatives also brings new expertise to the mining of minerals and the management of mines. Profits derived from cooperatives enable the development of businesses and auxiliary services. Consequently, mining regions experience gradual economic development.

Although mining is an important component of the economy of the region, it must be developed within the framework of legislative rules related to the prevention and mitigation of its environmental burden. Without major investments in mining sites and further training of the miners, it is not possible to practice sustainable methods of mining. The biggest challenge appears to be compliance with environmental laws, which are very advanced with respect to the context of the analyzed developing country. Another important step is the promotion of cooperatives by the government and its closer involvement in the training of geologists. The cooperatives need better education in the area of management, as well as in the basics of financial literacy. Since most of the miners associated with cooperatives belong to lower income groups, it is very important to also train them in planning family budgets in order to know how to manage the newly acquired finances. With growing demand for minerals and the current efforts of the Rwandan government to increase export revenues, it will be necessary to make an effort to protect nature and to improve the living standards of the people in the mining areas.

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Chapter 11
Tourism as Emerging Industry in Rwanda: The Role of Training and Development for the Hotel Sector

Celestin Ndikumana and Rama Rao Bokka

Abstract International tourism is becoming an increasingly important industry in Rwanda, and tourists expect to meet qualified service staff. This chapter reports about the results of a study of the status of training and development activities in selected hotels in Kigali. The reported quantitative study measures the level of employees' performance and establishes the relationship between staff development activities and their level of performance in the hotels included in this study. The results show a high commitment of managers to staff development activities. Managers find the performance of employees satisfying. Overall, our study finds a significant relationship between training and development activities among the employees and their level of performance in the hospitality industry in Kigali. In discussing these results, this chapter recommends not only to intensify and diversify the types of training offered to employees, but also that employees should be given the opportunity to participate in training needs analyses.

Keywords Tourism · Hotel sector · Kigali · Rwanda · Training

11.1 Introduction

Tourism across the globe has increased progressively and has emerged as a large employment creator. According to a recent WTTC (2015) report, the tourism and travel industry had a turnover of US$ 7.6 trillion (10 % of global GDP) and provided 277 million jobs (one in 11 jobs) in 2014. The United Nations World Tourism Barometer (2015) states that the number of international tourists (over-

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night visitors) reached 1,138 million in 2014, or 51 million more than in 2013. It further states an increase of 4.7 % during the fifth consecutive year of above average growth since the 2009 economic crisis. The World Travel and Tourism Council (2015) forecasts that over the next 10 years, travel and tourism will contribute US$ 11 trillion (US$ 3.4 trillion directly) and support 347 million jobs around the world (126 million directly—over 25 million more direct jobs than in 2013). The report stresses that the growth in employment in travel and tourism at over 4 % per year for the next 10 years will bring about enormous development across the world and emphasizes the need for providing suitable talent to the sector.

The African continent presents impressive growth trends in travel and tourism. The continent's average growth rate of more than 5 % over the past 15 years compared to a global average of 3.3 % presents a clear case of its increasing contribution to the world's economy. Between 2011 and 2015, seven out of the 10 fastest growing economies in the world were in Africa: Ethiopia (8.1 %), Mozambique (7.7 %), Tanzania (7.2 %), Congo (7 %), Ghana (7 %), Zambia (6.9 %), and Nigeria (6.8 %); the others were China (9.5 %), India (8.2 %), and Vietnam (7.2).

Although tourism in Rwanda can be traced back to the early twentieth century, its evolution went through different stages (Booth and Briggs 2004; ORTPN 2005; Shachley 2005; Williamson 2001). Due to the genocide in 1994, like many other sectors even the tourism sector in Rwanda was shaken at a very high level. After 1994, the country depended a lot on foreign aid as its economy started recovering and the government identified tourism as one of the tools to boost it (Mazimpaka 2007). This required a number of strategies, as the country was competing with established tourism regions such as Tanzania and Kenya (Government of Rwanda 2002, 2006; ORTPN 2004; OTF Group 2004). Owing to a number of major initiatives and policies, the tourism industry in Rwanda has achieved considerable growth and contributed significantly to its economy. This growth is evident in the increasing number of international tourists, especially for attractions like mountain gorillas, the natural rain forest at Nyungwe, and the Akagera National Park besides great lakes like Kivu and Muhazi (Gatsinzi and Donaldson 2010).

Recent statistics show tourism as the country's top export income earner and a pillar of Rwanda's growing economy (Matsangou 2015). According to the same source, tourism revenues in Rwanda jumped from around US$ 132 million in 2006 to US$ 282 million in 2012. The total investment in this sector almost tripled from around US$ 117 million in 2011 to US$ 324 million in 2012. The number of foreign visitors crossed the one-million mark in 2012. Reputed international carriers such as KLM, Turkish Airlines, and Qatar Airways have extended their operations to Kigali. Famous hotel groups such as Hilton, Marriott, and Radisson Blue are starting operations in Rwanda contributing to an increase from around 650 rooms in 2000 to 5,000 rooms in 2010 (RDB 2012) and 6,500 rooms currently (Matsangou 2015). The growth in this industry translates into a need for a workforce to perform duties related to handling the increasing demand for professional services, especially in hotels and restaurants. With its commitment to ecotourism, the responsibility of preparing human resources with necessary skills has been magnified (RDB

2012). For the hotel industry in Rwanda, the increasing demand of developing human capital through training and development programs has also become evident. In modern scenarios of managing businesses, those organizations that rely on the capacity building of their employees have higher chances of surviving in a business environment which changes over time (Jessy 2010).

11.2 The Problem and the Purpose

Different studies have shown that in developing countries having qualified personnel in the hotel industry is a big challenge. Butler (2008) points at the unavailability of quality workforce at different skill levels. In his study, he stresses that labor shortages and their impact on the industry in almost every geographic location are consistently among the most difficult challenges noted by hotel owners and managers. Rwanda is no exception. The Rwanda Development Board's report (2012) argues that in many institutions in the hotel industry in Rwanda there is a persistent challenge of finding requisite numbers of qualified personnel in numbers and quality. At the same time, most of the hotel owners feel that a well-trained manpower can contribute to their institutions' effectiveness. Though many studies have been conducted in the area of human resource management practices, especially in training of employees, there is a lack of studies in the hospitality industry in Rwanda, which defines the research gap to be filled in this area. Kigali, as the capital of Rwanda, accommodates many hotels in the country and therefore the research questions addressed in this chapter are as follows: What is the level of training and development activities in the hotels in Kigali? To what extent do managers appreciate the performance of trained employees in the hotels in the city? And to what extent do the opportunities of training and development activities offered to the employees contribute to increased services that they offer to customers in the hospitality industry in Rwanda? Training of employees is done by organizations to enhance their understanding of the job and to increase their productivity on the job by comparing it to their level of performance before they received training. Employee performance is seen from the perspective of employees' ability to realize job-related goals both in terms of quantity and quality. This study aims at providing an answer to the often debated issue of whether training of employees leads to their better performance both in the perceptions of employees themselves as well as in their managers' views.

11.3 The Influence of Training and Development on Employees' Performance

Business managers who want to increase the overall performance of their businesses due to the knowledge and skills attained by employees through their training resort to human resource management practices (Akhter et al. 2013). Numerous examples in literature indicate that training and development programs such as human resource management practices can help organizations to develop, especially due to improved employee performance (Addison and Belfield 2004; Bradler et al. 2013; Gonchkar 2012; Kazan and Gumus 2013; Saleem and Kurshid 2014; Uysal 2014; Vermeeren et al. 2014). In a broad sense, one reason for developing human resources is to equip individuals with necessary skills and help them perform their duties, which finally adds to the overall performance of a business. Within this framework, organizations should make good use of their personnel capabilities. A vital role of training employees in organizations is that apart from improving their performance, they are also given an opportunity to position themselves as far as global competition is concerned (Benedicta 2010; Connie 2009). This explains the significant difference between organizations which mobilize resources in terms of budgets for training their employees and those which do not. Another dimension where businesses benefit from training their employees is that the employees feel valued and this leads to increased job satisfaction (Dearden et al. 2006); employees then feel motivated to do their jobs (Khan 2012). When investigating the impact of training on employee performance in the world of growing uncertainty, Bakan (2009) concludes that employee skills have a fundamental role in the success of a business. For a business, training employees help in increasing performance, and for employees, it assists them by providing professional competence and tapping into their potential, thereby making them feel able to do their future jobs. A study by Jones et al. (2009) about the relationship between training, job satisfaction, and workplace performance in Great Britain, shows that employee training and development influence workplace performance directly. More recent research demonstrates that competitiveness relies on performance, which is in turn very closely linked to training and development (Khan et al. 2012). According to Hoque (2012), the magnitude of training and development enhances employee effectiveness. An organization does not only need money, materials, supplies, equipment, and ideas about the service or products to function effectively, but an important value also has to be attached to the people who run the enterprise for them to be able to cope with changes and perform well, for this training serves as a useful tool (Sultana et al. 2012).

11.4 The Context of the Study: The Hotel Industry in Rwanda

Desk research, mainly based on documents by the Rwanda Development Board (RDB 2012; Matsangou 2015), shows that the hospitality industry in Rwanda grew significantly from 650 rooms in 2000 to 5,000 rooms in 2010 and 6,500 rooms in 2015. With this growth rate, significant efforts have been made by the Government of Rwanda to create facilities for training the staff as a way of responding to the need for human resources in this important industry. Rwanda's tourism policy made it mandatory that the country's hotel industry should contribute 2 % of its revenue toward providing education and training facilities in the sector. It is in this regard that training institutions such as Integrated Polytechnics and Regional Centers (IPRCs) and Technical and Vocational Educational Trainings (TVETs) have been created. The Rwanda Development Board is also assisting in offering training for hotel employees, especially in customer care services. RDB's initiative to rank hotels motivates hotel owners and managers to provide training to their employees. This helps hotels to be competitive and facilitates high scoring as compared to their competitors. As a result of this, at the end of 2012 there were about 35 hotels ranked from 1 star to 5 stars (RDB 2012).

11.5 The Need for Training of Employees in the Hotel Industry

Studies have shown that training of employees in the hotel industry is very crucial. The need for training of employees in this sector especially in Rwanda comes from the fact that the country is still in the early stages of developing its travel and tourism sector. In fact, the Ministry of Trade and Industry (2009) showed a shortage of manpower in the hospitality sector. In this regard, the country thought of a number of measures including human capital development policies across the country as a way of responding to growing needs: the quality of tourism and hospitality professionals including hotel employees, waiters, guides, and other key personnel.

The training of employees in the hotel industry has also been a priority in neighboring countries, as policymakers and managers are aware of the benefits of developing human capital skills and how this helps organizations to grow in this industry. In Uganda, the National Development Plan recognized that providing employees with necessary skills is one of the ways to help hotels develop, especially by resorting to in-service staff training and this led to initiating the Uganda Hotel and the Tourism Training Institute (Mwaura and Ssekitoleko 2012). In order to strengthen the quality of services rendered by employees in the hospitality industry in another country in East Africa, Tanzania, a new mechanism based on human resource management practices has been introduced recently to help organizations in this area to develop. This mechanism is the launch a new Certified Apprenticeship Program in Hotel Operations in Dar es Salaam (ILO 2014) with the aim of enhancing skills among employees and entrepreneurs. In the same way, there have been many efforts for developing human capital in Kenya, as policymakers wanted the development of the hospitality industry to have its foundation in employee skills. For this, it created training institutions and organizations investing considerable amounts of money for upgrading the skills of employees in the hotel industry (Sindiga 1994). However, when the country is compared to others in the region, research shows that there are gaps in terms of skills possessed by employees in the hospitality industry, and this has an overall impact on employees in general and on businesses in particular (IPAR 2009). It is therefore obvious that developing a business in such an industry requires investing in human capital development in order to have skilled employees who perform their tasks professionally.

In other parts of the world developing businesses in the hotel industry through the training of employees has proved to be very real in terms of enhancing their capabilities and strengthening a business's competitive advantage (Sommerville 2007). In fact, the important skills that employees get from training are related to what to do and how to do it. Throughout the training, employees are exposed to different techniques which give them an opportunity to be familiar with their jobs. This helps them to better understand their work and it raises their self-motivation and self-confidence (Sommerville 2007). A study conducted in Karachi (Pakistan) by Afaq and Khan (2009) in this area sought to establish a relationship between employees' factors of training (including age, gender, experience, time spent on training) and measures of performance (including work safety, job preparedness, hotel hygiene, physical maintenance of rooms, interaction with guests, preparation for serving customers in different ways). It found that employees who had been trained performed better. Recommendations were drawn about the training needs assessment for hotel employees and for providing adequate training for targeted employees. A study done in China by Yang (2010) also investigated employee training in the hotel industry and showed that employees' self-confidence and motivation were skills acquired for better completing their tasks and as a way of providing a good channel of communication between the management and employees. In addition to this, training and development, on-the-job training, training design, and delivery style of employees are important for organizational performance (Ghafoor et al. 2011). The survival of a hotel depends on the availability and quality of training provided to its employees (Ameeq-ul-Ameeq and Furqan 2013). A study conducted in Ghana showed that enhanced customer services were a result of training of employees while on their job (Asebey et al. 2012). Research has also shown the effect of training and development of employees on their performance, but little is known about the efforts that have been made in the hotel industry in Rwanda in the area of training employees and the extent to which the level of training and development of employees has contributed to their performance in the hotel industry. Therefore, this study fills this gap by contributing with knowledge about the role of training and development programs in the hotel industry and to what degree the efforts invested in this particular area have an influence on employee performance.

11.6 Methodology

This is a descriptive study which applied quantitative tools to establish a relationship between training and development programs and employee performance. The study primarily used a structured questionnaire to gather primary data; this was supplemented with secondary data collected from institutions such as the Rwanda Development Board and the Ministry of Trade and Industry. Human resource managers and other employees of hotels in Kigali responded to the questionnaire. Though there were 18 ranked hotels in Kigali ranging from 2 stars to 5 stars, it was decided to restrict the study to 3-star to 5-star hotels to make it more focused so as to determine a relationship between training efficiency and employee performance. This was motivated by the assumption that in these organizations training and development programs would be vital and that these organizations will also have human resource managers.

The sample was determined using Slovin' s formula (Almeda et al. 2010) with a margin error of 5 % and a confidence level of 95 %. This formula is written as $n = \frac{N}{1+N(e2)}$ where N = total population, n = sample size, e = error margin (0, 05). However, this formula was only applied for 557 employees, and this resulted in 476 of them (85.5 %) being selected to participate in the study. The study also involved hotel managers and human resource officers and considering that their number was small and that they were very crucial for the study, they were all (20) considered, which made the number of respondents 496. Therefore, the questionnaire for assessing the level of training and development was administered to 476 employees, while the questionnaire for assessing employees' performance was administered to managers and human resource officers only. Four hundred and sixty questionnaires were returned and which could be used for data analysis (with a 96.6 % response rate) and all 20 questionnaires were returned from managers and human resource officers (making it a 100 % response rate). The questionnaire was based on a Likert scale with a 4-point classification (1–4) (Rensis 1932) with response alternatives allowing respondents to show whether they 'strongly agree,' 'agree,' 'disagree,' or 'strongly disagree' with indicators used to measure the study variables.

11.7 Results

11.7.1 *Availability of Training and Development Opportunities*

In order to study the availability of training and development activities in hotels, it was felt necessary to get the employees' views about existing training and development activities in their institutions as this should be the starting point for new employees. This was measured in indicators like whether a hotel had a training and development policy which was applicable to all employees and whether employees were assisted in acquiring technical knowledge and skills through training. The respondents' views are summarized in Table 11.1.

The results show that there was a very high level of training of employees in some indicators, while for some others, the level of training was medium. This has implications which are in line with the idea that most of these are ranked hotels

Table 11.1 Employees' perceptions about the training and development policy (n = 460)

Indicator	Mean score			
	1	2	3	Overall
Training of workers is given adequate importance in the hotel	3.9	3.95	3.97	3.94
The employees are helped in acquiring technical knowledge and skills through training	3.73	3.8	3.81	3.78
Human relations among hotel staff are developed through training in human skills	3.6	3.51	3.63	3.58
The hotel has a training and development policy which is applicable to all employees	3.0	3.75	3.3	3.35
There is adequate emphasis on developing managerial capabilities of the managerial staff through training	3.1	3.15	3.5	3.25
Employees are sponsored for training programs on the basis of carefully identified developmental needs	2.95	3.42	3.35	3.24
There is a well-designed and widely shared training policy in the hotel	3.22	3.2	3.3	3.24
The human resource department gives briefings for employee training	2.92	3.35	3.39	3.22
Senior line managers (high supervisors) are eager (have the will) to help their juniors (employees at the low level) develop through training	3.13	3	3.08	3.07
Those who are sponsored for training programs take the training seriously	2.93	3.04	3.12	3.03
Employees in the hotel participate in determining the training they need	2.99	3	3.1	3.03
Average	3.22	3.37	3.41	3.33

Note 1 = 3-star hotel, 2 = 4-star hotel, and 3 = 5-star hotel

which invest efforts in the training and development of employees. Though the level of training was not the same in all the hotels, it is worth noticing that the difference was slight when it comes to considering the rank of the hotel.

11.7.2 Employees' Perceptions About the Level of Introduction to the Job

The respondents' views show appreciation about the level of introductory training in hotels, its usefulness, and the value attached to it by managers and employees. Moreover, the respondents found hotels' norms and values to be well explained to new employees during the introductory training which was also found to be of sufficient duration. It was also learnt that the senior management took an interest in and spent time with the new staff during introductory training (Table 11.2).

Employees' views on introductory training of new employees show that hotel managers do their best to make this practice vital in their institutions. In fact, a lot of value is attached to the overall aim of introducing new employees to the company's mission, objectives, goals, and different practices in the hotel industry in Kigali. It is also worth noting that the rank of a hotel does not make a big difference to the introductory training as the variation in the mean from 3-star to 5-star hotels is very small.

Table 11.2 Employees' perceptions about introductory training (n = 460)

Indicator	Mean score			
	1	2	3	Overall
The newly recruited employees find induction training very useful in the hotel	3.95	3.95	3.98	3.96
There is introductory training in the hotel for new employees	3.87	3.89	3.94	3.90
Introductory training provides an excellent opportunity for newcomers to learn comprehensively about the hotel	3.8	3.87	3.88	3.85
The norms and values of the hotel are clearly explained to new employees during induction	3.66	3.57	3.6	3.61
Induction period is well planned in your hotel	3.45	3.55	3.5	3.50
Induction training is of sufficient duration in your hotel	3.3	3.41	3.37	3.36
Senior management takes an interest and spends some time with the new staff during introductory training	3.19	3.18	3.17	3.18
Average	3.60	3.63	3.63	3.62

Note 1 = 3-star hotel, 2 = 4-star hotel, and 3 = 5-star hotel

11.7.3 Training Quality

The results of an assessment of the quality of training and development is given in Table 11.3.

The quality of training in the selected hotels was very satisfying as indicated by the mean scores for training quality indicators: From the first to the last indicator, employees appreciated the quality of the training. Though the mean score seems to be high from 3-star to 4-star hotels as far as employees' appreciation of the quality of training is concerned, there is no significant difference in the quality of training which can be associated with its rank.

11.7.4 Post-Training Practices and Behavior

An attempt was made to assess whether supervisors encourage employees to share what they have learned during training with other employees, whether employees who use their training are given preference for new assignments or, for instance, if job aids (resources or technology) are available on the job to support what the employees learned during the training (Table 11.4).

It is not enough to design a training package for employees and remain inactive once they come back from the training. Instead, it is important to put to use the skills that the employees got during the training. Perceptions of employees show that there are very interesting practices among the hotel managers and supervisors in terms of what they do when employees come back from their training as they can be assigned new duties and given opportunities to apply new methods and techniques which they learned in the training sessions. This is important because when

Table 11.3 Employees' views about training quality

Indicator	Mean score			
	1	2	3	Overall
Training programs are handled by a competent faculty	3.65	3.73	3.78	3.72
The quality of training in the hotel is excellent	3.45	3.49	3.44	3.46
The hotel management (managers) link training and development with the hotel's business strategy	3.42	3.44	3.43	3.43
The equipment used in training is similar to the equipment found on the job	3.3	3.47	3.49	3.42
External training programs are carefully chosen after collecting enough information about their quality and suitability	3.38	3.31	3.39	3.36
Average	3.44	3.48	3.50	3.48

Note 1 = 3-star hotel, 2 = 4-star hotel, and 3 = 5-star hotel

Table 11.4 Employees' views on post-training practices and behavior (n = 460)

Indicator	Mean score			
	1	2	3	Overall
Job aids (resources or technology) are available on the job to support what employees learned in training	3.4	3.41	3.42	3.41
Employees who use their training are given preference for new assignments	3.38	3.4	3.42	3.40
Supervisors support the use of techniques learned in training that employees bring back to their jobs	3.0	3.5	3.7	3.40
Employees returning from training are given adequate free time to reflect and plan for improvements in the hotel	3.17	3.1	3.24	3.17
When employees come after training, supervisors encourage them to share what they have learned with other employees	3.12	3.14	3.22	3.16
Line managers allow a conducive environment to put in practice new ideas and methods acquired by their juniors during training	3.01	3.07	3.1	3.06
Average	3.18	3.27	3.35	3.26

Note 1 = 3-star hotel, 2 = 4-star hotel, and 3 = 5-star hotel

employees are not given such opportunities it becomes difficult for them to understand why such training was organized and they might become demotivated.

11.7.5 Overall Level of Training and Development

It was found that the level of training and development programs in the selected hotels was significant and high, which shows that the hotel industry in Rwanda is taking care in preparing its human resources to meet the challenges of performance. This is also in line with the will of hotel managers and owners who are committed to maximizing customer care services as the hotel industry strives for growth which is in keeping with the growth in tourism in Rwanda. It can also be observed that the initiative of the Rwanda Development Board to rank the hotels every year makes it believe that hotel owners and managers are eager to have competent and professional employees who can be a competitive advantage. The Rwanda Skills Survey done by the RDB (2012) states that developing and enhancing the skills of the workforce is a critical component of this strategy. The strategy is underpinned by the assumption that a better match between employee skills and the skills required in the workplace make for a more productive industry. It also believes that effective education and training is an essential component of a sustainable industry.

11.7.6 Employees' Performance in Hotels

The second objective of this study was to understand the level of employees' performance from the managers' point of view in the selected hotels. These were measured through employees' performance indicators such as initiative and confidence, communication, achievement drive, having business acumen, respect, commercial focus, team building, client focus, and time management. The descriptive statistics, means, and standard deviations of managers' perceptions about employees' performance are given in Table 11.5.

Table 11.5 shows high levels of performance among employees in general in terms of communication, achievement drives, human relations and client focus, building spirit, initiative, confidence, and time management. It is worth noticing, however, that for some performance indicators, differences in mean scores are associated with the rank of the hotel. For example, the level of performance is

Table 11.5 Managers' and human resource officers' views about employee performance (n = 20)

Indicator	Mean score			
	1	2	3	Overall
The employees communicate clearly and professionally with both internal and external clients	2.6	2.8	3.0	2.80
Employees set goals and strive to achieve them with enthusiasm and determination	2.6	2.4	4.0	3.0
Employees have a good understanding of the hotel environment and the impact their behavior has on the reputation of the hotel	2.75	3.4	3.0	3.05
Employees treat colleagues and customers in a manner which demonstrates integrity, honesty, and fairness	2.5	3.2	3.0	2.90
Employees have a good understanding of the hotel environment and the impact their behavior has on the reputation and financial performance of the hotel	2.7	2.6	3.0	3.10
Employees develop teams for working together in order to achieve the hotel's goals	3.05	3.1	3.0	3.05
Employees demonstrate a desire to address customer needs and do so in a professional manner	3.6	3.3	3.0	3.30
Employees generate and act on new ideas that add value to the hotel	3.4	3.5	3.0	3.30
Employees look at different ways of solving problems and addressing difficulties	3.15	3.3	3.0	3.15
Employees are time bound and understand the consequences that not following these will have on the hotel	3.01	3.04	4.0	3.35
Employees demonstrate effective hotel abilities by delivering work according to the deadlines and of a high standard	3.3	3.15	3.0	3.15
Average	2.96	3.07	3.18	3.10

higher in a 5-star hotel than in a 3-star or 4-star hotel when it comes to employees being able to stick to goals and strive to achieve them with enthusiasm and determination or when managers view their [employees] time management abilities in terms of being time bound and understand the consequences that not following the time frame will have on the hotel.

11.7.7 Significance of the Relationship Between the Level of Training and Development Programs and Employee Performance

The overall objective of this study was to establish the effect of training and development programs on employee performance in the hotel industry in Kigali and to investigate the level of training and development programs in the hotel industry and their relationship with employee performance from the managers' point of view. The computation of the correlation coefficient (r) between the study variables gave the results which are summarized in Table 11.6.

a. Predictor (constant): availability of training and development opportunities, level of introductory training, training quality, post-training practices and behavior.
b. Dependent variable: employee performance.

The r-value (r = 0.759, sig = 0.000) in Table 11.6 indicates that there is a significant correlation between the level of training and development programs and the level of performance of employees in hotels in Kigali city. The significant value indicates that the two variables (status of training and development programs and the level of performance of employees) are significantly correlated (significance is less than 0.05, which is the maximum significance value to declare a significant relationship). The R-square value in the model summary shows how much of the variance in the dependent variable (employee performance) is explained by the independent variable (training and development) which includes a total of training and development opportunities, level of introductory training, training quality, post-training practices, and behavior. The value 0.549 explains that 54.9 % of the variance is explained by staff training and development programs and the unexplained variability equals 45.1 %. It is worth concluding that there is a positive significant relationship between the level of training and development activities and the level of performance of employees in the hotels, and this is justified by the fact

Table 11.6 Effect of training and development of employees on their performance

Model	R-value	R-square	Sign
1	0.759	0.549	0.000

that both training and performance were found to satisfy the perspectives of employees and managers (and human resource officers), respectively.

11.8 Conclusions, Recommendations, and Limitations of the Study

This research was conducted in the hotel industry in Kigali. Though there have been other studies which have investigated the relationship between training and development of employees with their performance in various areas including the hotel industry, little was known about the extent to which hotel owners and managers value important human resource management practices of training and development programs and apply them to help employees cope with their duties. Therefore, this study approached this gap and showed and explained one of the reasons behind the fast growth of the hotel industry in Rwanda. While available sources show that efforts have been made by the government to address the issue of a skills gap in the hotel industry through the Rwanda Development Board and by creating an environment to deal with this problem, this study shows the extent to which the hotel industry has embraced this idea by applying training and development policies to make employees perform well in their duties. The results of the study therefore show the basis for growth in the hotel industry in Rwanda, which is investing in training employees and which gives the industry a chance to compete with other businesses in the region. The nation is aiming to capitalize on the goal of making Rwanda a world-renowned tourist destination and the expectation is that it shall be receiving a huge influx of travelers and tourists; the numbers are expected to cross 1.5 million. Rwanda is making deliberate efforts at development to make tourism more vibrant and travel in Rwanda more pleasant.

The study investigated the level of training and development of employees in hotels in Kigali. In general, employees' views showed that these programs are available in hotels and that they participate in designed training and development programs. Considering the low mean scores for some indicators, which can be interpreted as weaknesses, some recommendations are offered for improvement. For this, the senior management needs to express their expectations about employees by spending necessary time with new employees during the introductory training. It is also important to give employees opportunities to participate in a training needs analysis, and this should be given primary importance so that organizations can fully achieve their desired training goals. Considering the importance of an interaction between line managers and lower level employees, this practice is important as it will allow both parties to communicate and discuss issues and problems related to the employees' technical skills. When they come from training, employees should be given opportunities to reflect about what they can do to improve the quality of their performance. In addition, there should be a proper mechanism of monitoring and follow-up of employees' performance after the training to assess whether the training has been effective or not, and training programs should be linked with employees' promotions so that these programs help increase employee motivation which will ultimately result in better performance.

As for the limitations of this study, it is important to mention that the study only involved 3-star to 5-star hotels in Kigali. This might have had an influence on the results as other hotel establishments in the same city such as those with low ranks or those which were not ranked might have a different scenario in the context of staff development policies, which also has an effect on staff performance. In the same manner, it is possible that hotels in cities other than Kigali might have other realities. The study also used quantitative and secondary data. Thus, qualitative data through interviews and focus group discussions provided another angle for understanding training and development programs in hotels. This is a promising avenue for future research.

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Chapter 12
Privatization of Firms in Rwanda: The Role of Corporate Governance Practices

Samuel Mutarindwa and Jean Bosco Shema

Abstract This chapter assesses the applicability of corporate governance practices in Rwandan privatized firms. A case study was conducted with a single cement manufacturing firm, findings from which reveal gaps in company-level corporate governance practices in matters relating to minority shareholder controls, board composition, executive reviews, disclosures, and transparency. Some of the gaps identified are related to institutional and regulatory frameworks. The findings of the study have theoretical as well practical implications for all stakeholders of corporate governance in Rwanda, that is, policymakers, corporate governance agencies, and company directors. At the firm level, there is a dire need to address the identified gaps to strengthen corporate governance best practices with regard to existing standards, while at the government level, laws could be revised to strengthen enforcing mechanisms.

Keywords Privatization · Corporate governance · Developing countries

12.1 Introduction

12.1.1 Background

In the past two decades, privatization has been a key macroeconomic reform in both developed and developing countries. One of the major rationales for privatization of state-owned enterprises has been reducing the dominant role played by the government as a key player in the economy to facilitate the emergence of a vibrant and active private sector (Boubakri et al. 2008). Several studies document that privatization replaces political control with private control by outside investors and that

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the result of the switch to these relatively more efficient ownership structures is typically a significant improvement in the performance of privatized firms. Privatization programs bring more revenues for the state, economic efficiency improves, and it also leads to product market competition (Boubakri et al. 2005; Megginson and Netter 2001; Megginson et al. 1994; Nheri 2014).

Given the increasing scale of privatization activities in both developed and developing countries, a number of studies on both the macro- and firm levels (Dyck 2001; Ramamurti 2000) highlight the factors that drive a firm's performance after privatization. One of the key drivers of firm performance mentioned in the literature at country and firm levels refers to a country's level of corporate governance and institutional development. It has also been documented elsewhere that the ultimate success of privatization depends on the effectiveness of post-privatization corporate governance mechanisms (Boubakri et al. 2004). Research evidence, however, shows that in contrast to developed countries, privatized firms in developing countries have experienced neither improvements in profitability, capital investments, efficiency, and outputs, nor a significant increase in leverage. Johnson and Shleifer (2004) attribute mitigated privatization records in developing economies to weaknesses in corporate governance, in particular poor investor protection.

A study by Dyck (2001) emphasizes that unless developing countries embrace a corporate governance perspective, privatization is unlikely to provide the benefits of improved performance with accountability to the governments that instituted them. Many developing countries lack established institutional infrastructures for efficient corporate governance. Studies contend that a country's level of institutional development in this regard is a major determinant of the failure or success of privatization programs (Dyck 2001; Ramamurti 2000).

In this chapter, we provide an understanding of corporate governance structures prevailing in privatized firms in developing countries for two main reasons. First, particular attention is paid to econometric assessments (mostly based on panel data) of the impact of new forms of ownership on firm behavior and outcomes such as corporate performance (Megginson and Netter 2001; Shirley and Walsh 2001). Unfortunately, the results across real-world empirical tests on post-privatization performance changes are not yet conclusive (Wu 2007; Molz and Hafsi 1997). At the same time, much less attention has been paid to the variables that explain performance outcomes of privatized firms. Cuervo and Villalonga (2000) argue that organizational and contextual variables need to be considered and studied carefully in order to explain variances in the performance effects of privatization. We follow this argument by studying the corporate governance structures in a privatized firm.

Second, in addition to the inconclusive results on the outcome of privatization initiatives across the world, research on the subject is based on Western developed countries and to a lesser extent on developing economies. This study attempts to add to the body of the literature by examining whether privatized firms have established sound corporate governance structures in Rwanda, a developing country. Rwanda represents an example of a country whose privatization programs were influenced by the World Bank and the International Monetary Fund (IMF) in the 1990s as part of Structural Adjustment Programs (SAPs). However, little is known about the adequacy of the accompanying institutional infrastructure, specifically corporate governance mechanisms within the privatized firms. This study therefore aims to fill this gap by assessing the soundness of corporate governance mechanisms in Rwandan privatized firms' context.

12.1.2 The Research Context: Privatization in Rwanda

Rwanda is a small, landlocked country in East Africa. It is bordered by the Democratic Republic of Congo (DRC) to the west, Tanzania to the east, Uganda to the north, and Burundi to the south. The 2012 Population and Housing Census put the population of Rwanda at 10.5 million residents, of which 52 % were women (The World Bank 2015). Rwanda is one of the fastest growing economies in central Africa. Although still poor and mostly agricultural (90 % of the population is engaged in subsistence agriculture), the nation has made significant progress in recent years. New industries such as tourism, cut flowers, and fish farming have been gaining importance. The major sources of foreign trade are coffee, tea, tin cassiterite, wolframite, and pyrethrum. However, to understand the current transformations and developments, we need to understand the historical context that has shaped the current political, social, and economic environment in Rwanda today.

Rwanda experienced a civil war and genocide in 1994, in which more than a million people were killed while more than a million left the country. During the pre-war period (before 1994), the Rwandan formal economy was dominated by the public sector, that is, state-owned enterprises.

The war and genocide resulted in the destruction of infrastructure of numerous state-owned companies, but even more damaging was the loss of human capital through death, flight, or imprisonment of qualified employees and managers of these companies. Most of the public parastatals were severely damaged or completely abandoned, requiring major investments for rehabilitation that the government could not afford; many former employees did not return to their previous workplaces since many of them were either killed, fled the country, or preferred to look for other opportunities.

The enterprises that were more or less still active after the genocide lacked the financial support necessary at that stage. Many of them were heavily indebted and consequently close to bankruptcy (Rwanda Privatization Secretariat 2001). For instance, Ovibar, a state-owned banana processing enterprise, had cumulative losses of almost US$ 123,000 in 1997, despite the fact that it was totally exempt from paying taxes. The Kabuye Sugar Office (KSO), a sugar manufacturing plant, stopped paying its personnel and had cumulative salary arrears amounting to US$ 151,000. Petro Rwanda, a company involved in the storage and distribution of oil, had total liabilities of US$ 2.4 million.

The government recognized that for the country to survive, it had to revive private enterprises. As mentioned in the Privatization Secretariat report (2002: Section 1.0), the Rwandan Government of National Unity embarked on a program of comprehensive economic and social reforms after the 1994 genocide. Recognizing the private sector as the principal driving force behind economic growth in Africa and elsewhere, the Rwandan government felt it should not be left behind and put in place an ambitious privatization program for its state-owned enterprises. This program was established by law (no. 2 dated 11/3/96) on privatization and public investment. A presidential decree (no. 08/14 dated 3/5/96) put in place the institutions to implement this program.

In October 1997, the Privatization Secretariat commenced its work (Republic of Rwanda Privatization Secretariat 2001). It was implemented through a comprehensive set of reforms and policies undertaken by the government under the guidance of the World Bank and IMF. The objectives of the government at the start of the privatization process were to relieve the financial and administrative burden of the government, improve efficiency and productivity of the companies, reduce the size and the presence of the public sector in the economy, and broaden the ownership base.

Rwanda had about 72 commercially oriented state enterprises in 1995. Most of these enterprises were either operating well below capacity or were dormant and bankrupt. Since 1996, 56 companies have been fully privatized, 20 are in the process of privatization, and seven have been liquidated. This has earned the government a reported US$ 100 million. Most enterprises were sold to domestic investors, although some larger ones, including a modern specialist hospital, a sugar factory and estate, and a petrol distribution company, were sold to foreign firms. To permit privatization, the National Assembly adopted a new legislation establishing regulatory frameworks for some sectors, including paving the way for private sector participation. The law also created a multi-sector agency to regulate the activities of firms in the power and telecommunication sectors (MINECOFIN 2003; UNDP 2005).

However, the privatization program faced several obstacles in the post-conflict environment, including lack of institutional capacity to manage the privatization process. While the process is believed to have been generally transparent, there were also a number of transactions undertaken through mutual agreements directly between the government (with the involvement of the Privatization Secretariat) and private investors. These included some difficult transactions where the process of public offerings failed (Bakazi 2005). However, even some of these transactions eventually unraveled. These problems lend support to the argument that privatization may have been premature in a volatile post-conflict environment. Arguably, the government could have waited until the economy had stabilized and fully recovered from the effects of the conflict before offering state-owned enterprises (SOEs), for sale (English et al. 2004; UNDP 2005; USAID 2004).

After privatization in early 2000, thanks to macroeconomic and political stability, new businesses emerged because of the stable security situation in the country. With weak systems of governance, malpractices began to surface in some sectors, mostly in the financial sector. Various regulatory mechanisms were put in place, among them the endorsement of the rules for enforcement of corporate governance[1] in insurance companies (on separation of duties of CEOs and the chairman of the board), the Company Act[2] of 2009 (on general incorporation and governance of the company), and the private sector code of corporate governance, all of which were meant to strengthen the governance practices in not only privatized firms, but also other privately held firms such as family businesses and public firms including local and foreign companies. All companies incorporated under the Rwanda Company Act are required to comply with and practice the governance mechanisms defined in the aforementioned laws, by-laws, and acts.

We argue in this chapter that as much as privatization overcomes agency problems in government-owned enterprises, it is not an end in itself, but can rather be a source of future problems. Agency problems are inherent in privatized firms. It is within this context that we use a case approach to obtain in-depth insights into how institutional practices such as corporate governance shape the management and control of privatized firms.

12.1.3 Privatization in Developing Countries: The Need for Corporate Governance

Since the 1980s, governments across the world have increasingly chosen to relinquish control over public enterprises. Some of the major reasons for selling state-owned enterprises to private owners include promoting economic efficiency, reducing government inefficiency in the economy, promoting a wider share of ownership, stimulating product market competition, and subjecting state-owned firms to capital market discipline (Megginson and Netter 2001; Nheri 2014). After its debut in the UK in the early 1980s, the sale of state-owned firms (privatization) spread to France, Italy, Spain, and other market economies. Many empirical studies (see Megginson and Netter 2001, for a review) show that privatization is indeed highly successful in delivering performance and efficiency improvements.

Many developing countries, such as Rwanda, have since the 1990s implemented privatization programs with the intention of replicating their success in developed economies (Dharwadkar et al. 2000; Megginson et al. 1994).

However, research results reveal mixed evidence with regard to privatization success efforts in developing countries (Frydman et al. 1997; McDonald 1993; Park 1997; Wright et al. 1998). The key argument put forward is that due to weak governance systems in developing countries, when the initial excitement with the transfer of ownership to the private sector is over, how to govern the privatized

[1]Article 20 of the Regulation (no. 07/2009 of 29/07/2009) on corporate governance requirements for insurance business, published in the *Official Gazette* no.*35 0f 30/08/2010,* available at: http://www.bnr.rw/docs/publicnotices/Insurance%20regulation%20n07%20copportate%20governance.pdf. Accessed on December 19, 2011.

[2]Company Act (no. 07/2009), available at: www.gov.rw.

corporation is a major concern in those countries (Aggarwal et al. 2011; Wright et al. 1998; Young et al. 2002). According to Boubakri and Cosset (1998) and Boubakri et al. (2005), performance because of privatization is impacted by a country's business culture reflected in corporate governance and institutional development. La Porta et al. (1997, 1998, and 2000) have shown that these considerations constitute a major difference between developed and developing countries, since governance mechanisms are relatively weaker in the latter. In general, research has characterized the degree of corporate governance in developing countries as weak and variable (Bekaert and Harvey 2003; Denis and McConnell 2003; Klapper and Love 2004). Other studies contend that a country's level of institutional development is a major determinant of the failure or success of privatization programs (Dyck 2001; Ramamurti 2000). For example, Johnson and Shleifer (2004) attribute the mitigated privatization record in developing economies to weaknesses in corporate governance, in particular poor investor protection. This study builds on this scholarly argument to assess corporate governance structures of privatized firms in developing countries characterized by weak institutions.

12.2 Corporate Governance Structures in Privatized Firms

The dominant theory explaining corporate governance in privatized firms has been the agency theory (Eisenhardt 1989; Fama 1980; Jensen and Meckling 1976). Agency theorists argue that new ownership results in agency problems (e.g., Eisenhardt 1989) such as managerial perquisite consumption (Gedajlovic and Shapiro 1998) and entrenchment problems (Dharwadkar et al. 2000; Walsh and Seward 1990).

Researchers suggest that agency problems can be resolved through increasing incentive alignments between principals and agents and effective principal monitoring of agents (Eisenhardt 1989; Zahra 1996; Zajac and Westphal 1994). Eisenhardt (1989) specifically highlights that effective governance mechanisms such as ownership structures, boards of directors, executive compensation, and external mechanisms, such as takeover threats, can resolve many agency problems and this may consequently affect the performance of privatized companies due to improved monitoring and/or less agency conflict (Che Haat et al. 2008; Gul et al. 2010).

However, research evidence shows that such agency solutions rely on an efficient governance context prevalent in most developed economies (Holl and Kyriazis 1997; Kochhar 1996) and may not be appropriate and effective in weak governance contexts of developing economies. Governance mechanisms in developing countries are generally weak, and the risk of expropriation of shareholders by managers or by block holders (majority shareholders) is considerably higher. Dharwadkar et al. (2000) also note that in the case of developing countries, traditional agency theory alone cannot fully explain properly the relationship between privatization and performance. Following North (1990), the authors argue that contextual factors such as the development of market institutions, industry structures, ownership patterns, and enforcement of laws should be considered in guiding the transfer of property and regulating corporate control in the newly privatized companies. It is through acknowledging the weaknesses of agency theory that scholars propose an institutional perspective for studying corporate governance in privatized firms.

North (1990) had previously argued that institutions[3] affect economic performance and that there are implications for how a firm's behavior is influenced by the environment in which it operates. Davis (2005) has argued that the most relevant and promising corporate governance research seeks to understand the institutional context in which it occurs, as governance systems are embedded in the national institutional environment (Aoki 2001; D'Souza et al. 2005; North 1990; Whitley 1999). The World Bank (1995) is of the opinion that a country's institutional environment exerts a major influence on post-privatization performance. These studies note that privatization is interrelated to institutional factors such as legal infrastructure. Literature on corporate governance has provided a context for how different national institutions, particularly legal systems, influence corporate governance (e.g., Gospel and Pendleton 2003; Mayer and Whittington 2003) at the firm level.

We argue that an institutional perspective provides a balanced theoretical framework for studying privatization. It posits that over time, structures and activities develop which provide meaning and stability to social behavior. In the case of privatization, institutional factors set the process in motion and influence its development. Once begun, however, the process occurs within an organization and is therefore enacted by employees.

Ultimately, new activities and meanings which suit the newly changed ownership and governance arrangements of an enterprise are adopted, developed, and institutionalized by organizational members (Erakovic and Wilson 2005; Greenwood and Hinings 1993; Scott 1995; Springdal and Mador 2004). It is only then that an organization can be said to have fully adopted a privatized, entrepreneurial stance.

12.3 Method

12.3.1 Research Design

Our work adopts a qualitative approach based on a single case study. The basis for the case study approach was the intention to create an in-depth understanding and to explain corporate governance in a privatized firm, and this endeavor could be realized well with a case study approach. According to Yin (1994), a case study can

[3]Institutions are broadly defined as the rules of the game that structure incentives in human exchange in a society (North 1990).

be understood as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and the context are not clearly evident.

We used different research methods for data collection and analysis. Primary collection instruments included interviews. Our research also relied on secondary data from annual reports, other company documents, laws, and regulations.

12.3.2 Interviews

We conducted semi-structured interviews which allowed interviewees the freedom to express their views on their own terms, an approach that was relevant to the fundamental objective of this study. The semi-structured interview allows a more complete understanding of an interviewee's opinions and the reasons behind them, an advantage that is not gained using a questionnaire (Borg and Gall 1983).

We conducted interviews with three senior officials of the company CIMERWA, which was the focus of this study and which follows privatization and the restructuration process closely. First, the Chief Operations Manager holds a degree in material science and engineering with a major in cement technology. He joined CIMERWA in 1989 and worked at different positions before being appointed as its Chief Operations Manager in 2007; this is a position that he holds till today (as of December 2015). His experience in the company helped get us access to good quality information. Second, the legal advisor holds a bachelor's degree in law. He joined the company in 2008, a year after privatization and restructuring of the shareholding process. His position as a legal advisor on legal matters during the restructuring of the company made him a key resource for our study. Before joining CIMERWA Ltd., he worked as legal advisor in a labor union. Third, the chief accountant joined the company in 2011 from the Office of the Auditor General of Government Finances. He holds a bachelor's degree in accounting science as well as in chartered professional accounting (CPA).

We conducted telephonic interviews of 30 min each over 3 days in consideration of their busy workload. This was followed by a transcription of the interviews. Interviews were connected to the following themes: ownership structure and shareholding, board of directors' practices, management and executive compensations, disclosures and transparency mechanisms, and knowledge on institutional frameworks such as the Company Act, and the Private Sector Federation's recommendations of corporate governance best practices.

12.3.3 Content Analysis

We did a qualitative content analysis. As defined by Moretti et al. (2011), the method consists of a subjective interpretation of the content of text data through a systematic classification process of coding and identifying themes or patterns. We analyzed various documents that served as inputs for an understanding of corporate governance at both the firm and national levels. Specifically, we analyzed the Company Act of the Republic of Rwanda (governing the companies' code of conduct); the International Financial Reporting Standards (IFRS) handbook to study the type and number of disclosures in corporate financial reporting; the annual reports of the parent company in South Africa and those of CIMERWA Ltd., the subsidiary; shareholders agreements; and finally, the code of conduct of the Private Sector Federation, an umbrella organization for private companies.

12.4 Presentation of Case Study: CIMERWA Ltd.

12.4.1 Activities and Performance

CIMERWA is a manufacturing company producing cement sold in Rwanda and exported to other countries in the Great Lakes region. With the privatization of the company, the contract specifically includes a provision to build or extend a new plant in order to respond to the increasing demand for cement (CIMERWA 2013). The company was established in July 1975 in Muganza, Western Province, Rwanda, through an agreement between the Government of Rwanda and the Government of the People's Republic of China. The company commenced operations in July 1984 with a production capacity of 50,000 metric tons. This capacity was doubled to 100,000 in 2001. Despite a substantial increase in local and regional demand, there has not been any investment in additional capacity. CIMERWA was fully owned by the Government of Rwanda until its privatization in 2006. During a nationwide privatization process, CIMERWA Ltd. was one of the 56 companies privatized as of 2006. The company was sold to the Rwanda Investment Group (RIG) for about 90 % (450,000 shares of the total 500,000) of its ownership and the government retained only 10 % control.

In December 2011, restructuring was done for which new institutional shareholders came in. With this restructuring, its authorized share capital rose from US$ 6.6 million to US$ 28.2 million divided into 21,200,000 shares of US$1.33 each (from the original 500,000 shares).

12.4.2 CIMERWA Ltd.'s Performance

The company's performance evolved positively soon after being privatized and slowed with the construction of the new plant (Fig. 12.1).

As we can see in Fig. 12.1, the turnover increased from US$ 12,515 to reach a peak of US$ 17,457 just at the end of the second year of privatization (an increase of 39.5 % which can be considered a good performance). The net income also went

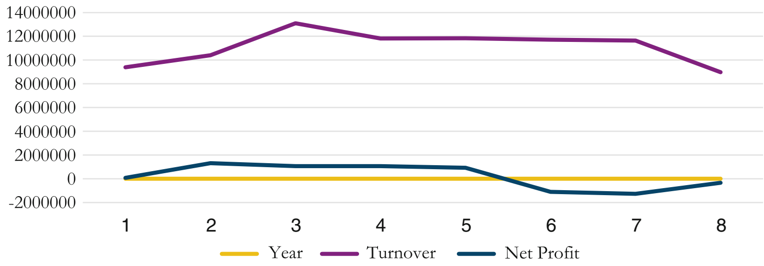

Fig. 12.1 Turnover and net income from 2006–2013

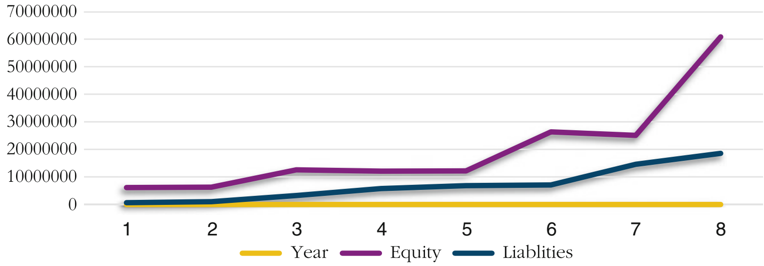

Fig. 12.2 Evolution of equity and liabilities

from US$ 98 to US$ 1,753 in just the second year. Net profit declined in the following years as a result of activities at the new plant. Activities increased as experts were recruited (salaries and other emoluments) and also because of an increase in financial costs. The decrease in profits in subsequent periods after privatization is also attributed (according to our interview partners) to the breakdown of machinery due to age and the difficulty in getting spare parts due to the nature of the plant.[4] A major restructuring was undertaken, and redundant staff were laid off. Almost 50 % of the total staff were legally laid off, and the firm continued its operations as usual. This reduced operating expenses and thus increased net income.

12.4.3 CIMERWA Ltd.'s Financial Position

As shown in Fig. 12.2, with the new shareholding, the equity of the company improved compared to its liabilities.

[4]The cement plant is very old and has a production capacity of 100,000 tons per year, whereas modern cement plants have annual production capacities of 600,000 tons. Because of this, spare parts also cannot be easily found in the market (interview results).

Interviews with the management revealed that the board of directors was cautious regarding the use of debt and an increase in financial costs as a result of the debt, and thus, they resorted to issuing more equity.

12.5 Presentation and Discussion of Findings

This section presents results from a content analysis and interviews held with the senior management of the case study. We present our results through subthemes of corporate governance. The subthemes include ownership structures and shareholding, board of directors' practices, management and executive compensations, disclosures, and transparency mechanisms.

12.5.1 Subtheme 1: Ownership and Shareholding Structures

This subtheme addresses ownership structures as a corporate governance mechanism. This mechanism looks at the nature of ownership (e.g., family, institutional, and local/foreign), shareholder rights and obligations, minority interest protection, and annual general meeting practices.

Reviews from annual reports and other company documents revealed that the company is owned by institutional investors. As one can observe in Tables 12.1 and 12.2, after privatization, new institutional investors took over the ownership of the company. The first and second restructuring saw new institutional investors acquiring stakes in the company.

From Table 12.1, one can observe that new shareholders joined pushing the original investor (Rwanda Investment Group) to less than half of its original shareholding.

Another ownership restructuring was done in December 2013 with a new major shareholder whose capital injection pushed the authorized share capital from US$ 282 million to US$ 468 million divided into 35,160,976 shares of US$ 1.33 each. This shareholding was distributed as indicated in Table 12.2.

Table 12.1 Shareholding after privatization

Shareholder	Number of shares	%
Rwanda Social Security Board	8,755,325	41.30
Government of Rwanda	7,158,441	33.77
Rwanda Investment Group	4,955,844	23.37
SONARWA Limited	330, 390	1.56
Total	21,200,000	100

Table 12.2 Shareholding after restructuring

Shareholder	Shares	%
PPC International Holdings Proprietary	17,932,098	51
Rwanda Social Security Board	7,115,303	20.24
Government of Rwanda	5,817,543	16.55
Rwanda Investment Group	4,027,530	11.45
Sonarwa Limited	268,502	0.76
Total	35,160,976	100

When it comes to shareholding practices, we assessed composition, control, and minority interests. From the annual reports available, we found that the company is owned by institutional shareholders with a majority being foreign ownership. We also found that the government retained a minority stake in the company. Through interviews, we also found that control is exercised by majority shareholders and that the chairperson of the board of directors comes from the second majority shareholder.

With reference to the shareholders' agreement, the highest organ of CIMERWA Ltd. is the general meeting of shareholders (AGM) which convenes during March following the year of business, which ends on 31 December. The shareholders' agreement, among other things, stipulates what will guide the discussions and deliberations of the AGM including proceedings of the shareholders' meeting. Matters requiring approval, dividend policy, additional finances, guarantees, transfers of shares, undertakings regarding the operations of the company, termination on breach, confidentiality, mutual cooperation, proxies, no partnership, conflict with articles of associations, and other important matters are specifically defined in it (CIMERWA 2013).

In addition to the internal rules of the company, one of the interviewee explained: 'We also refer to the Company Act on provisions relating to the composition and functioning of the AGM. Minutes, agenda, and reports are sent to the shareholders 7 days before the AGM.'

Ownership of the company is somewhat dispersed with institutional investors as majority shareholders and the government having a small stake. The majority shareholder is a foreign investor with 51 % of the shares, while the remaining stakes are shared by other local institutional shareholders. In line with the previous research, we find that this can be a proper governance mechanism, especially after privatization. Gillan et al. (2003) consider the role of institutional investors in corporate governance and show that institutional investors, often foreign institutional investors, play a central role in promoting change in corporate governance systems. They also show that foreign investments play an important role in the corporate governance of a firm, as the firms are motivated to implement home-country corporate governance best practices.

But on the other hand, institutional investors can pose a corporate governance problem if they are not backed by efficient laws and regulations concerning the rights of shareholders. Issues of abuse of minority shareholding take precedence in this case. Two categories of minority shareholders exist in this company: those who hold sufficient shares to entitle them to appoint a director and those whose ownership is not sufficient for this. Minority shareholders who do not qualify to appoint directors have no access to key decision-making rights. The influence of this group on decision making is low. This group of minority shareholders only relies on the annual general meeting to air their views and attempt to exert influence on the decision-making processes, and this may lead to abuse of their rights by institutional shareholders.

This situation in the company tends to contradict what literature recommends on the control of companies by minority shareholders. For instance, a strand of literature on ownership and control (Kirkbride et al. 2009; La Porta et al. 1999) suggests that the inclusion of minority shareholders in decision making as will be provided within the legal and corporate governance framework of any country will add to investor confidence and encourage, or is even a prerequisite for, an environment of dispersed ownership.

12.5.2 Subtheme 2: Board of Directors' Composition and Quality

Under this subtheme, we present the findings from a content analysis and interviews dealing with the composition, independence, quality, and diversity of the board of directors.

With reference to the shareholders' agreement, the board of directors is mandated to follow the regular management of CIMERWA Ltd. The board of directors is composed of seven directors, two of whom have to be independent directors. The latter should be chosen given their broad range of skills, particularly in the realm of finance and management. The board of directors meets four times per year in ordinary meetings.

According to the same shareholders' agreement, the board has three subcommittees—the Audit and Governance Committee, Human Resources and Remunerations Committee, and the Production Committee. Their duties are detailed in the board of directors' charter (prescribed by the shareholders' agreement). We also found (from both written records and interviews) that the company does not have any nomination committee of the board to appoint independent and executive board members.

Results from our interviews also concur with what is stipulated in the shareholders' agreement about the composition of the board. Seven of the eight members are executive members, and meetings are held on a quarterly basis (according to the annual reports). The subcommittees of the board are convened once every month whose inputs are taken to the board of directors' meetings. Our interviews also suggest that there are no independent committee meetings since there is only one independent director. All board meetings are held together. The company also provides training to board members in matters related to policy and operations (according to one interview).

In terms of the board's diversity, one woman sits on the board and she is the current CEO. The shareholders appoint members of the board of directors. Eight members constitute the board, with no independent directors. The CEO is appointed by the majority shareholder. Top leadership positions in the company, that is, the board's chairman and the CEO, have been separated. The CEO reports to the board of directors and is usually appointed for a 2-year term which is renewable. It was also found that the company does not have a company secretary.

Our study found that the company does not have any nomination committee responsible for board appointments and making recommendations about director selection to the board. However, contrary to this situation in the company, a number of studies recommend the existence of such a committee to improve the quality of director appointments through director selection of the board (Eminet and Guedri 2010; Kaczmarek et al. 2012; Ruigrok et al. 2006). Board monitoring fulfills a pivotal role in the board's composition and succession planning and in ensuring that the board will be appropriately composed to perform its statutory tasks and functions (Vafaes 1999).

Despite the importance of the nomination committee as described in the literature, we find that the majority shareholder, who is a foreign investor (PPC International Holdings Proprietary), has a nomination committee at its headquarters in South Africa. We found that both the Private Sector Federation code and the company do not provide for such a committee. We also found the non-adoption by the subsidiary to be related to the institutional frameworks existing in the host country (Rwanda), and thus, this gap to be related to the institutional setup.

Our findings contradict previous research in terms of advantages related to the board of directors' diversity, for instance, the presence of outside directors and their roles in corporate monitoring (Weisbach 1988; Winter 1977), avoidance of managerial collusion (Fama 1980), and performance (Bhagat and Black 2002; Hermalin and Weisbach 1991).

The lack of independent directors does not live up to the recommendation by the Rwandan Private Sector Federation (2009, p. 7) that 'The board shall include a balance of executive and non-executive directors (including independent non-executive directors) such that no individual or group of individuals or interests can dominate its decision making.' This situation underlines the need for strengthening the existing regulations and improving the Company Act, if the institutional infrastructure promotes corporate governance best practices.

We also find compelling evidence from a number of studies that women are particularly valued as board members for their ability to provide strategic inputs and in generating a more productive discourse (Bilimoria 2000, p. 27). The unique role of women on boards is often reflected in their participative management style (Pearce and Zahra 1991) and in higher sensitivity compared to their male colleagues (Bradshaw and Wicks 2000). This ability, combined with their attention to and consideration of the needs of others, may lead to women's active involvement in issues of strategic nature that concern the firm and its stakeholders. However, we find from the case study that the company has only one woman on board who at the same time is the CEO, a reflection that there is lack of board diversity in the company which is a corporate governance concern. Based on the national gender policy, we argue that the regulatory frameworks regulating private companies as well as company-level practices should consider gender equality in board composition.

12.5.3 Subtheme 3: Executive Management and Internal Controls

The daily management of CIMERWA Ltd. is assumed by the CEO under the supervision of the board of directors. Interviews revealed that there has been an improvement in the management after the privatization, and one interviewee said: ‘Prior management of the company has been confined to the Chinese managers who did not assure proper management as compared to the period after privatization.’

Documentary reviews show that the CEO is evaluated by the board on an annual basis, and the board has the responsibility to hire and fire the CEO. Interviews showed that the CEO comes from the majority shareholder. The board determines and decides the compensation package of the executives, but what is not mentioned is the issue of how the CEO’s compensation is reviewed (i.e., when the review takes place and who does it).

To support the CEO in carrying out the daily functioning of the company, internal control systems such as policies, procedures, and regulations as prescribed by the board of directors have been institutionalized.

According to one interview with the management, ‘To ensure internal controls, procedures and manuals have been designed and are under implementation such as the Human Resources Procedures Manual, Financial Procedures Manual, Safety and Security Procedures and the Board of Directors’ resolutions are also referred to in ensuring proper controls, etc.’

12.5.4 Subtheme 4: Disclosures and Transparency

The final part of governance that we assessed was the issue of disclosures and transparency. We based our analysis on company documents such as annual reports and complemented this with interviews.

It was noticed that the company prepares annual reports following International Financial Reporting Standards (IFRS) with a focus on the disclosure of important items such as related party transactions, nature of shareholding, and the background of directors which is a necessary but not sufficient indicator of the company’s adherence to corporate governance (related to disclosures and transparency). Communication of the company's performance over different periods is also important for disclosure. We notice that the company's disclosure practices are minimal when compared to IFRS, a set of accounting standards adopted by companies as stipulated in the Company Law No.7/2009 of 2009. Important information is not put on the company Web site, and it is not even published for public use. The only avenue for communication is through the company's annual general meeting.

The Rwandan Company Act and the company's articles of association (in accordance with International Financial Reporting Standards) recommend that companies disclose material information such as, but not limited to, related party transactions, background of directors, individual remuneration of directors, policies on risk management, corporate governance report, members of board subcommittees, nomination committee report, and social and environmental reporting, as well as how, where, and when the reports are made available to stakeholders in their annual reports.

Our findings reveal that most of the annual reports are prepared and only given to shareholders, but they are not published. The findings also reveal that dissemination is still a problem. We found that very few items related to corporate governance including the composition of the board were published on the company's Web site. Major corporate governance disclosures, such as annual reports, are not published on the company's Web site as required by the Rwandan Company Act (2009). This is also in contrast to disclosure practices of institutional investors owning the company. Prior research relates failure of disclosure to the effectiveness of the board. Research has demonstrated that the managements in corporations with more efficient boards (Karamanou and Vafeas 2005) and more independent boards (Ajinkya et al. 2005) issue more frequent and accurate information. Prior research also shows that firms with strong corporate governance disclose more information (Kent and Stewart 2008) and more accurate information (Goodwin et al. 2009) during the initial adoption of IFRS. Finally, studies using international data find that the extent and quality of social and environmental disclosures are associated with the strength of corporate governance mechanisms (Mallin et al. 2013; Prado-Lorenzo and Garcia 2010).

12.6 Conclusion

The overall purpose of this study was to assess the governance structures of a firm that has undergone privatization. An institutional perspective explained how laws, codes, and company-level practices shape the governance structures of the company and how these could help to overcome agency problems and contribute to performance. Our case provided some insights that a contextual understanding of corporate governance is necessary. We found some practices that are mostly contradictory to existing literature on corporate governance of privatized firms.

Whereas governments tend to overcome corporate governance deficiencies in firms through the enactment and enforcement of laws and codes of best practices, we find that in the specific context of Rwanda, there are regulatory gaps that might in one way or the other explain the low levels of application of corporate governance, in the case company discussed in this chapter specifically and also in the general corporate sector. As a consequence, there is a potential risk that agency problems may resurface within the entity.

12.7 Contributions, Limitations, and Future Research

This chapter aimed to contribute to management literature on privatization through a contextual examination of corporate governance practices in the less developed country of Rwanda, particularly based on a company that is not listed on the stock exchange. Thereby, we answered the call of the previous research for a contextual understanding of the phenomenon under study. Our main contribution is a detailed explanation of the inadequacy of corporate governance practices in a privatized company, previously neglected in the literature. In contrast to performance-based studies prevalent in the literature on privatization, we focused on antecedents to privatization outcomes in a developing country context.

In addition, while the corporate governance debate has mostly focused on listed companies in countries with developed capital markets and companies with dispersed shareholdings, the challenges of corporate governance in non-listed companies deserve special attention, especially in countries where equity markets are less developed and a majority of the companies are small- and medium-sized enterprises (SMEs). This study provides some insights into corporate governance practices in such firms in a developing country.

Our study has practical implications for policymakers, corporate governance agencies, and company directors, who are ultimately responsible for implementing good practices in their companies. Our study provides the understanding that both regulatory and company-level practices are necessary for overcoming agency problems prevalent in privatized firms. Policy implications include the necessity to strengthen corporate governance practices such as the revision of the Company Act in order to improve issues that are not clearly developed and that may lead to opportunistic behavior by a firm. A privatization process should impel the new acquirer to follow corporate governance good practices as a condition for privatization.

Our findings face some limitations. Whereas a case study approach was desirable for this particular study, it limits the statistical generalizability of our findings. We therefore recommend future researchers to validate our findings based on a larger number of companies, as well as different types of companies, considering, for example, the size and the industry.

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Part IV
Commentary

Chapter 13
Entrepreneurship and SME Management Across Africa: A Perspective and a Short Review

Benson Honig

Abstract This chapter concludes the volume Entrepreneurship and SME Management Across Africa. Historical perspectives are provided to facilitate examining the transitions of a diverse and complex African continent full of entrepreneurial opportunities, spirit and optimism. The chapters in the volume are re-visited and their contributions highlighted.

Keywords African entrepreneurship · Perspectives on African management · Chapter contributions · SIDA · African development

It is both an honor and a pleasure to write a concluding chapter in this volume. This chapter attests not only to my deep appreciation for the diversity and vibrancy of life in so many of the African countries I have visited and worked in, but also in the rich and extended professional relationships developed with Leona Achtenhagen and Ethel Brundin. We first met nearly two decades ago at Jonkoping International Business School (JIBS) when they were promising doctoral students, and I was a Jr. faculty affiliate. It continues to be a special pleasure to know and work with these important scholars.

As the editors and authors so aptly point out, this is the time to observe the ascendance of the African continent. From a management scholar's point of view, this represents relatively undeveloped territory, where scholarship, or what little has been taking place, primarily occurs at the periphery (Nkomo et al. 2015). This volume provides an excellent demonstration of the richness and potential in pursuing this line of inquiry. The work is of a high quality and provides a good exposure to the diversity of life and research in Africa, it tackles many challenging managerial problems and opportunities, and it provides new insight and approaches typically overlooked in more mainstream literature. However, the contribution of this volume exceeds even these important markers. The work itself represents an extended commitment on the part of numerous scholars, on the part of the Swedish

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International Development Agency (SIDA), and this array of scholars to develop scholarly expertise, recognition, and research capacity on the African continent itself. Having myself spent numerous years attempting to enhance local infrastructure, I have only the highest regard for the considerable scholarly and logistical efforts that have resulted in this very important and interesting volume. The editors, contributing authors, SIDA, and JIBS must be heartily commended for their efforts, and this book provides important evidence of their many accomplishments.

Before we begin to discuss this material at length, there is one final small point I wish to make. Were it not for two years I spent living and working in Africa in the 1980s, I would never have chosen to become an academic, and so I owe a great debt to the continent. It changed my life. It was in Africa that I first encountered what Kenneth King referred to as the 'African Artisan' (King 1977, 1974), individuals working in a highly entrepreneurial fashion, developing sustainable enterprises that seemed to appear miraculously out of thin air. So-called bush mechanics repaired cars with ingenuity and locally available materials, making parts that were unavailable or prohibitively expensive. Hundreds of microentrepreneurs carved discarded used tires into perfectly functional sandals and shoes, long before the concepts of social entrepreneurship or sustainability became common areas of scholarly discourse. At the time, SIDA was a world leader in advancing African technical education through very well meaning, but not uncriticized efforts (Ishumi 1992; Fluitman 1992), many of which failed to eventually create the much hoped for significant employment activities (Fluitman 2001). While donors such as SIDA, the World Bank, and the International Labor Organization actively attempted to develop suitable programs, the harsh realities of unreliable and intermittent technological development severely handicapped their efforts.

Over time, the continent developed a reputation for failure, corruption, and hopelessness among many bilateral and multilateral donors. Yet, despite many institutional failures, the perennial optimism, ingenuity, and entrepreneurial spirit of millions of Africans soldiered on. It was as though Africans were saying—'take your fancy machine shops and sophisticated training back where you came from—we will manage perfectly well on our own.' And succeed they did, in the second largest and second most populated continent, whose 54 countries represent a virtual mosaic of culture and capabilities.

It is important to note that there is an extensive tradition of African entrepreneurship, technological development, and art and culture. While some would argue Europeans encountering the heart of Africa were observing 'primitive commerce and technology,' historical evidence argues against this view. For example, African metal workers were both accomplished and adaptable (Goucher 1981). The recent exhibit *Kongo: Power and Majesty* at the Metropolitan Museum of Art (2015, in New York City) showcased technology (in particular, textiles) found by the first European visitors that was so far beyond their own capabilities they were presented to European monarchs as special gifts (and were so preserved).

Not only technology was quite sophisticated throughout African history, but archeologists have determined that both trade and economic institutions were well entrenched and established long before Europeans entered the scene (O'Rourke and

Williamson 2002). East African trade with Asia in the Middle Ages has been well documented (Abu-Lughod 1991). In fact, many entrepreneurial innovations may be attributed to African innovation. For example, Mohammed Yunus won a Nobel Prize highlighting the importance of microlending and the informal economy. However, rotating credit associations (RCAs), known by the Yoruba as the ‘esusu,’ were well established in the nineteenth century, and likely existing long before they were ‘discovered’ by European anthropologists (Bourman 1995). These traditions were carried by slaves to the Caribbean and the Americas, where they continued to advance the economic well-being of marginalized communities throughout the world.

Thus, as European and North American management scholars enter into collaboration with our African colleagues, we would do well to recognize that not only is the environment substantially different, but so are the historical trajectories, capabilities, cultural nuances, and sociopsychological norms. Obviously, this poses considerable challenges for those scholars wishing to impose their own preexisting theories on a somewhat untested environment and cultural landscape. Are decision theories that apply in Europe and Asia equally applicable in Africa? Is the African notion of community consensus a unique cultural perspective, or can it fit into a previously theorized framework? Answering these and similar questions requires not only indigenous African scholarship, but also benefits from collaboration between scholars familiar with different traditions, capable of bridging gaps in theories and frameworks, and either developing new or extending existing theoretical traditions. In short, developing scholarship and providing outlets such as this vary volume.

The editors begin by highlighting the relevance of studying entrepreneurship in Africa. I could not agree more. Africans are, perhaps due to their unique cultural perspective, a very entrepreneurial lot. In many African countries, the informal sector vastly outweighs the formal sector, as itinerant entrepreneurs develop their own business models, pursuing opportunities as contemporary as repairing cell phones, or charging them up with bicycle generators or solar collectors. Making use of newly available data, Tsambou and Esone (Chap. 2) examine the population characteristics that make up Cameroonian entrepreneurs, demonstrating an important opportunity that appears to be evidenced by younger entrepreneurs in particular; they are better educated and more familiar with technological advances. Given the relative youth demographics across the continent, this presents an important opportunity. Berndt (Chap. 3) examines the issue of crowdfunding, noting that while there are a few extant platforms, it is yet to be a widely acceptable practice. This subject is particularly important given the comparative sophistication of phone banking in Africa, and it is both ubiquitous and efficient. Attempting to bridge the culturally embedded notion of rotating credit, associations with phone banking might be one solution to ‘africanize’ small investments. Tillmar (Chap. 4) provides a very insightful and important discussion of conflict resolution for small businesses in East Africa. Given the relative lack of legal enforcement, African entrepreneurs are often forced to ‘take matters into their own hands’ regarding legal and ethical issues. At times, the costs of doing so may not differ substantially between more institutionalized environments, but the method of circumventing corruption and ensuring dependability certainly requires a unique approach (Fadahunsi and Rosa 2002).

The next set of Chaps. 5–8 focus on challenges in the African environment, highlighting the issues of context and specificity, in a continent of well over one thousand different languages, cultures, and dialects. Akende, Abu, and Obekpa (Chap. 5) examine microfinance, doing a very nice job using quantitative methods to evaluate microfinance institutions in Nigeria. Indeed, the growth of microfinance organizations continues to be rapid, and the effort to systematically compare and measure them is a very beneficial activity. Buaruhanga and Othuma (Chap. 6) use conventional ‘Western’ managerial concepts of social exchange theory and OCB and apply them to African settings in Uganda and Rwanda. While these models appear to hold up under study, it would be nice to see future research by this team examining whether African factors such as tribal affiliation impact these data. Greinert and Levinsohn (Chap. 7) move to South Africa and examine a social enterprise. South Africa makes a very interesting case for the study of social enterprises, in part because their political system enhances the advantages (and necessity) of social action and the triple bottom line. All major South African firms are comparatively measured on their social policies; the results are made public and presumably impact their ability to interact with both government and consumers. Their Greenpop case demonstrates the ‘new’ South Africa, whereby affluent white managers actively and passionately pursue a social mission, leveraging strategic partnerships with employees who share the founders’ values. In Chap. 8, Hatem provides a case study of a transnational entrepreneur (Honig et al. 2010) who returns to Sudan and starts a mobile phone business. The study provides a nice contrast to the plethora of return migrant research conducted elsewhere.

Finally, the last four chapters focus on scholarship examining Rwanda. This country presents a very unique opportunity and environment for scholarship. Emerging following the horrific genocide of 1994, Rwanda became a failed state whereby the majority of the population became refugees, either in their own country, or elsewhere. World opinion and guilt over not having stopped the slaughter has made Rwanda a favorite child of the development world. It has prospered (GDP growing at 8 % p.a.), and while there is some criticism regarding human rights, Rwanda represents one of the most rapidly developing and least corrupt countries on the continent. Interestingly, it has also changed its national language from French to English, has a very strong gender equality platform in government, and is now incorporated into the East African Union (an economic trading block). Biedermann (Chap. 9) does a very good job outlining both the history and current conditions of economic development for the reader, although critical elements are largely absent. This chapter will be very useful for readers less familiar with the Rwandan model. Chapter 10 (by Machacek and Duskova) provides a brilliant example of qualitative field research examining an important but frequently overlooked sector in Africa —the issue of mineral extraction. In this case, the authors provide extensive and important critical study focusing on some of the social and environmental consequences of mining as currently practiced. Issues including the relative trade-offs, the issues of local poverty, and possible solutions implying better regulation and control are discussed. The next chapter, by Ndikumana and Rao, examines the issue of tourism, one of the key industries on the African continent. The authors take a rather refreshing approach, not only analyzing the training that occurs in the industry, but also asking the employees their perception of the quality of the training they received, as well as employee performance. They point out some interesting impact from government policy, such as the decision to nationally rate the quality of different hotels. Finally, Mutarindwa and Shema (Chap. 12) examine an important and relatively new activity—the role of governance in newly privatized firms. Many African countries developed state-owned enterprises in an effort to jump-start industries. These firms were frequently inefficient and riddled with corruption; however, they often provided one of the few opportunities for Africans to engage with modern technology and manufacturing. While much import substitution has fallen by the wayside, a number of companies, particularly the more successful ones, have been ‘spun out’ to the private sector. This chapter has some very enlightening perspectives on the role of governance through the extensive interviews and content analysis that they conducted. I suspect this kind of research would be much more difficult to conduct in an advanced economy, and so the study highlights one of the opportunities of access provided by scholars willing to invest time and effort in examining African management practices.

In sum, this volume incorporates important advances and perspectives on African management previously overlooked in the literature. It also provides an excellent opportunity for scholars less familiar with the African context to expose themselves to opportunities and perspectives that may have been disregarded in contemporary management scholarship. The work offers insights into both methodological approaches and contextual factors that are highly relevant to African scholars, and those scholars worldwide are interested in African management. It also represents a shining example of the kind of beneficial productive outcomes available to those willing to invest their time and energy on the African continent. The volume provides permanent evidence of considerable patience, collaboration, knowledge transfer, mentoring, and mutual respect from scholars across considerable divides. It is a friendly, interesting, and enjoyable read. The authors and institutions involved are to be commended on a job well done.

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