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Informal Family Business in Africa

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Employing grounded theory based on comparative case studies of informal microfinanced businesses in East Africa, we build a theoretical foundation for studying the establishment and evolution of family firms in emerging markets. We show that East African entrepreneurs not only use both strong family and strong community ties to establish and grow businesses, but they also use strong community ties to counterbalance the obligations that strong extended family ties create. In addition, we show that economic informality presents opportunities for some entrepreneurial businesses but not others to cycle rapidly from opportunity to opportunity as they maneuver toward higher value-creating ventures.

Introduction

Despite the increased attention to family businesses in mature economies, research on family businesses in emerging economies remains limited. Notably, management and entrepreneurship scholars in general have ignored emerging economies in Africa and have specifically not addressed the dominant form of business in this region—family business (Bruton, Ahlstrom, & Obloj, 2008). We find this absence of attention puzzling since understanding how family businesses emerge and evolve may shed light on how to overcome the exceptionally high levels of poverty in the region. In this paper, we draw on prior literature on family business, economics of development, and economic sociology in order to understand how rural East African entrepreneurs establish and grow their businesses. In particular, we concentrate on the forces that strong family and community ties exert on male and female entrepreneurs operating in the context of economic informality.

Africa presents an opportunity to contextualize family business research along several dimensions (Zahra, 2007). First, the dominant literature on family business has used the family firm in North America and Western Europe as its reference point. North American and Western European notions of family, which are broadly consistent with one another, include tight circles of immediate relatives connected through blood or marriage (i.e., Beehr, Drexler, & Faulkner, 1997; Naldi, Nordqvist, Sjoberg, & Wiklund, 2007). In fact, succession issues in family businesses in North America often concern relationships between first cousins (Nawrocki, 2005). In Africa, however, extended

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families are the foundation of kinship ties (Barnard & Spencer, 1996; Stewart, 2003). As a result, a broader set of individuals are included under the rubric family than would be the case for a corresponding definition of the family in North America or Western Europe. Second, most definitions of family business in North America and Western Europe reflect some component of formal ownership, or a right to property, recognized in the law which individuals can sell, trade, or transfer to other generations (de Soto, 2000; Pryor, 1985). This definition is a reflection of institutional environments that make the protection of property rights routine. In Africa, small family businesses often operate within the norms of the informal economy. Informal market activity exists in virtually every economy, but it is one of the defining features of entrepreneurial activities in emerging and transition economies (de Soto; Johnson, Kauffman, & Schleifer, 1997; Schneider, 2005; Webb, Tihanyi, Ireland, & Sirmon, 2009). Such informality makes it difficult, if not impossible, to define a family business employing formal ownership agreements that meet some legal standard. Moreover, economists and sociologists have pointed out that in the informal sector, it is social networks that enforce norms within exchanges (de Soto; Portes & Haller, 2005). In North America and Western Europe, prior research typically focuses on differences between the weak and strong tie networks of entrepreneurs. We argue that in the context of rural East African businesses, the relevant theoretical framing is the interplay between multiple strong tie networks.

Our research contributes to the literature on family businesses in a number of ways. First, it tackles family business issues (Chrisman, Chua, & Sharma, 2005; Chrisman, Chua, & Steier, 2003; Chua, Chrisman, & Steier, 2003; Sharma, Chrisman, & Chua, 1997; Steier, Chrisman, & Chua, 2004) in the rich African context which the management literature has left largely unexamined (Bruton et al., 2008). Our contextualization of East African family business will help to develop a more nuanced theoretical foundation in the field of family business (Zahra, 2007). Second, our exploration of how entrepreneurs with limited resources build businesses based on multiple strong ties highlights the complex interaction between networks in emerging economies. Third, we provide insights into the informal economy grounded in the micro-level analysis of choices that entrepreneurs make. Economic informality is central to the world economy, but it remains largely unexamined, particularly in the family business literature. Informal businesses are difficult to study, but this does not absolve business researchers from attempting to do so especially in parts of the world such as Africa where they are the predominant organizational form. Finally, this manuscript will provide greater insight into the poorly understood problem of the "bottom billion," or the one sixth of the world's population that has largely not benefited from the economic growth of the last 30 years (Collier, 2007).

Theoretical Foundations

In this section, we integrate a number of theoretical strands. First, we put Africa and its entrepreneurs into historical and economic perspective. Second, we draw on research in economics of development to underscore the pervasive role that business informality has in emerging economies. Third, we draw on recent work in economic sociology in order to consider how strong ties within social networks in East Africa affect the choices that entrepreneurs make in starting and growing their businesses. Our goal is to set the stage for theorizing from the qualitative field data that follows.

Africa in Perspective

Africa is a diverse continent with distinct historic, economic, and social traditions.[1] The continent has approximately half the population of India divided into 48 countries. The climate is tropical in parts but largely semi-arid with low population density and high ethno-linguistic diversity. Low population density means that the cost of economic integration in terms of transportation is high. When the land is sparsely settled, groups come together less, have less in common which, in turn, undermines economic integration, knowledge transfer, and trade based on comparative advantage. Hence, African countries typically have smaller populations but ones that are more diverse than in other regions of the world (Collier & Gunning, 1999). Diversity is a positive aspect of society when accompanied by democracy. However, autocracy and concentration of power within a single ethnic group has been the norm in many African nations since independence. At some point, any and all of these reasons have been brought forth as causes of Africa's slow economic growth. The African continent today contains one half of the world's poorest citizens who survive on two dollars a day or less. In fact, since 1980, "the aggregate per capita GDP in Sub-Saharan Africa declined by 1% per annum. The decline has been widespread; 32 countries are poorer now than they were in 1980" (Collier & Gunning, p. 3).

In this paper, we focus on Kenya and Uganda—two East Africa nations with comparable demographic profiles as well as cultural and historical ties. Kenya and Uganda obtained their independence from Great Britain in the early 1960s, but the imprints of their colonial legacy remain. Specifically, before independence, colonial authorities relied on minority tribes for support in governance. In exchange, tribal members received favorable access to education and employment. Furthermore, in both countries, the colonial government instituted reform of land tenure from the "customary" (indigenous tenure systems) to the private property system of written title (Green, 2006; Haugerud, 1989; Mackenzie, 1989). This exacerbated land inequalities between and within tribes which persist today. Kenya and Uganda remain agrarian economies with high levels of poverty and unequal distribution of wealth. An estimated 42% of Kenya's 36 million people and 50% of Uganda's 30 million people are under the age of 14. The life expectancy rates in each country are less than 55 years while HIV infection rates are about 7%. The official unemployment rate in each country is close to 50%, and the majority of the population lives on less than two dollars a day.

Informal Economies

Most family businesses in Africa are informal microenterprises (Fafchamps, 1994); that is, they have fewer than five employees, are unregistered, unlicensed, and typically do not pay taxes (Pretes, 2002). Informal economies conjure up images of illegality, shadowiness, exploitation, evasion, and lawlessness (Castells & Portes, 1989; Portes & Haller, 2005), yet contemporary definitions of business informality specifically exclude criminal activity. Economic informality is defined as "all market-based legal production of goods and services that are deliberately concealed from public authorities" for reasons of taxation, employment, and administrative regulation (Schneider, 2005, p. 600). A more fine-grained distinction between the formal economy, the informal economy, and the criminal economy is based on how the final product is made and distributed. In the formal

1. The northern rim of Africa, known as the Maghreb, is economically and historically part of the Mediterranean region and the greater Middle East, and is usually not included in economic discussions of Africa.

economy, the final product, the process of production, and its distribution are licit. In the criminal economy, the final product, its process of production, and distribution are illicit. In the informal economy, the final product is licit, but the production and distribution of it may be illicit (Portes & Haller). The size of the informal economy is estimated at 9% of GDP in the United States (15% in Canada), whereas the informal sector of typical African nations ranges between a low of 29% of GDP for South Africa and a high of 60% GDP for Zimbabwe. With 34% and 43% of GDP respectively, the informal sectors in Kenya and Uganda are representative of the situation in many African countries (Schneider: figures for 1999/2000).

To illustrate why African entrepreneurs elect to operate in the informal economy, consider the administrative hurdles to properly register and license a business. It can take, on average, 56 days to form a business in East Africa. In contrast, in OECD nations, it takes on average 14 days to start a business. The difference in the relative cost of forming the business is even higher in East Africa; it takes 148% of the Gross National Income per person to get the required licenses for a new business while in OECD nations it is 5% on average (World Bank, 2008). The result is that the majority of entrepreneurial firms in emerging economies such as Kenya and Uganda do not formally register with the government (Maloney, 2004). Recently, Webb et al. (2009) framed the phenomena of economic informality as "entrepreneurial activities taking place . . . within informal institutional boundaries (i.e., norms, values, and benefits of large groups in a society) but outside of formal institutional boundaries (i.e., laws and regulations)." When considered in perspective, the primary threat to most rural households in East Africa is grinding poverty, not the remote possibility that the state will sanction their family business because it is unregistered.

On the face of it, informality does lower the immediate cost of being in business (e.g., no registration and no taxes), but economists point out that it also carries long-term costs in the limits it imposes on wealth accumulation. Without clear and enforceable title to land or other property, families have limited ability to create capital that is "the surplus value over and above its physical assets" (de Soto, 2000, p. 49). When property rights are clear, standardized, and enforceable, the underlying assets are easily valued and traded. When they are not, entrepreneurs have to engage in alternative strategies "to simulate business strategies to grow their companies and build capital" (de Soto, p. 57). It is in this context of African informal economies, where institutions are weak and property rights are confused, that we focus on how entrepreneurs establish and grow their businesses.

Social Ties

Compared to family businesses in other parts of the world (Luo & Chung, 2005), East African micro-entrepreneurs have fewer immediate resources and have to draw on the social capital embedded more broadly within their social networks. Theoretically, social networks bridge the middle ground between atomized market exchange and the structure of formal organizations (Smith-Doerr & Powell, 2005). The ties that bind social networks together vary in their strength (Granovetter, 1973). Weak ties are "superficial or causal and normally involve little emotional investment . . . they can be thought of as arm's-length relationships whose handshake we seek but whose support we cannot count on" (Aldrich, 1999, p. 84). Although weak ties are built on "thin-trust" (Anheier & Kendall, 2002), they do link individuals with others whose resources are not likely to be similar to their own (Burt, 2005). On the other hand, the defining feature of strong ties is that they are "not governed by short-term calculations of self-interest . . . [and] contain an implicit principle of reciprocal obligation" (Aldrich, pp. 82, 84). Strong ties reduce the cost of exchange because they are built on repeat interactions with known individuals. Over time, trust, predictability, voice, and informal control develop in strong tie relationships (Aldrich). However, social network theorists have pointed out that network ties create constraints as well as opportunities (Burt; Portes, 1998) through the implicit and open-ended obligations that they create.

Entrepreneurs have a range of weak and strong ties. That is, a mix of people that they know well and trust and others whom they know in passing. Starting an entrepreneurial venture is clearly a risky economic activity, and under conditions of uncertainty, individuals pursue risk reduction strategies that rely on strong ties (Ingram & Roberts, 2000; Lerner, Khavul, & Hisrich, 2007). In rural East African society, the two main sources of strong ties are traditional extended families and the local community. First and foremost, individuals rely on extended families for social and economic support (Darley & Blankson, 2008). Large extended families, in various configurations and across multiple generations, live together and depend on one or more of their members for economic survival (Luke & Munshi, 2006).[2] In Kenya, for example, ". . . extended family households and family ties beyond the household are much more prevalent than nuclear family units made up of husband, wife, and their children . . . most marriages are really between extended families, not merely between individuals as in the West" (Kilbride, Suda, & Njeru, 2000). Individuals are born into a kinship network in which the lineage is carried through their fathers. Through marriage outside their kinship network, individuals expand and strengthen their original birth networks (Luke & Munshi), yet the network consequences of marriage are different for men than they are for women. The structure of family life in Kenya and Uganda is patrilineal: Women leave their natal families to join their husband's families. Traditionally, property rights to all assets (i.e., cows, houses, land, and proceeds from business) are held within the male's (or husband's) extended family. Hence, the right to property is defined by the kinship structure rather than individually or within a nuclear family of husband-wife-children. As such, in the event that a husband dies, custom-based law is that the claim on a deceased man's possessions by older male relatives will supersede those of his widow.[3] As a result, the differences in the degree of privilege between members of the nuclear and extended family are far less sharp than are the differences between men and women within the family.

For both men and women, the expectations from and obligations to extended families run deep. "African society is a system of mutually benefiting reciprocities" through which exchange within extended families takes place (Otite, 1978, p. 10 quoted in Darley and Blankson, 2008, p. 377). Indeed, for centuries, the extended family represented the only safety net available in East Africa (Ramadhani, 2003). However, researchers observe that the responsibility to provide for an extended family does appear to fall disproportionately on members who take economic initiative (Luke & Munshi, 2006). For example, when children from rural areas move away from their home in search of income, they carry a burden of responsibility to provide financial support for their extended family. Similarly, when individuals take the initiative to start and grow businesses, their accomplishments are visible, and the implicit obligations to their extended families are hard to ignore. When

2. The distinction between nuclear and extended family in an East African context (and indeed in West and Southern Africa) is blurred, so "kinship" is a more inclusive term to describe both nuclear and extended family (Dilger, 2008; White, 1994). Kinship relationships are defined as "the network of genealogical relationships and social ties modeled on the relations of genealogical parenthood" (Holy, 1996, p. 40 cited in Stewart, 2003, p. 384). In this paper, we use extended family to indicate that the notion of family in Africa is broader than that in the traditional family business literature.

3. However, as we discuss later, in some countries, laws have been passed to protect widows.

implicit economic obligations are not fulfilled, the resulting tension can undermine the cohesion of an extended family (Luke & Munshi). In this paper, our goal is to understand the pressures that strong family ties may create when entrepreneurs establish and grow their businesses. To this end, we pose two main research questions (RQ) that will guide this effort at theory development:

> **RQ1: How do strong family ties operating in the context of economic informality affect the *establishment* of entrepreneurial businesses in East Africa?**
>
> **RQ2: How do strong family ties operating in the context of economic informality affect the *growth* of entrepreneurial businesses in East Africa?**

For contrast and comparison, we consider a second source of strong ties to which East African entrepreneurs typically have access—the local community. Strong ties external to the family arise from relatively stable, small communities in which information about behavior flows freely and reputation of community members is easily observable and verifiable. Strong community ties are formed between individuals with close friendships and high levels of trust. The distinction between extended family and community ties is arguably the most important one within rural East African society (White, 1994). The level of obligation that an individual has to members of the extended family versus members of the general community is vastly different. An individual's primary responsibility is to the extended family. It is this responsibility that enables one to resist any claims from other members of the general community (Dilger, 2008) and gives the extended family power over its members. Therefore, where strong family and strong community ties coexist, as they do in East Africa, they are the logical choices for forming partnerships in entrepreneurial ventures. In this paper, we examine the interplay between strong family and strong community ties in the establishment and growth of entrepreneurial businesses.

Method

In order to examine the questions above, this research employs a grounded theory, multiple case-study approach (Eisenhardt & Graebner, 2007). Although sociology and anthropology regularly employ grounded theory, the management literature has applied it only sporadically for extending existing theory or building new theoretical explanations (Lee, 1999). Glaser and Strauss (1967) were the first to formalize the grounded theory approach, and subsequent work by Strauss and Corbin (1990) further systematized methods and provided examples of how to construct grounded theory. A grounded theory method interpolates between prior theory and field data where ". . . the trick is to line up what one takes as theoretically possible or probable with what one is finding in the field" (Glaser & Strauss, p. 253). Case studies are appropriate to examine contemporary or ongoing phenomena that are systemic in nature, and are difficult to separate from contextual factors (Yin, 2003). Eisenhardt (1989, p. 534) defines case studies as "a research strategy which focuses on understanding the dynamics present in a single environment." Moreover, as Mintzberg (1979, p. 587) pointed out, ". . . systematic data creates the foundation of our theories, [but] it is the anecdotal data that enable us to do the building. Theory building seems to require rich description, the richness that comes from anecdote. We uncover all kinds of relationships in our data, but it is only through the use of soft data that we are able to explain them." Since the study of family business in Africa is a new research domain in the field of entrepreneurship and taps into a complex phenomenon, a qualitative approach is appropriate for building theory (Lee).

Data Source

Our data source comes from in-depth case studies of Kenyan and Ugandan businesses developed in the field as part of an independent evaluation process for the Village Enterprise Fund (VEF). For the last 20 years, this nonprofit organization has funded small entrepreneurial ventures in East Africa. The VEF is a Silicon Valley-based equity microfinance organization whose sponsors include venture capitalists, lawyers, and technology entrepreneurs. Through its network of staff in Kenya and Uganda, the VEF identifies, selects, funds, and mentors entrepreneurs who start their own businesses. The equity microfinance amounts are generally less than $300 per project and average $150. In 2006, its direct granting budget was approximately a quarter of a million dollars (VEF, 2006/2008). Since 1987, VEF estimates that it has helped launch more than 16,000 businesses, each of which improves the lives of an average of 25 people (VEF).

Case Studies

We examined eight case studies of informal businesses founded in Kenya and Uganda between 2000 and 2003. The cases are based on field interviews of founders and other key family members in the business. The interviews typically lasted several hours and occurred at the new venture's place of business. Four of the eight case studies feature businesses where the founding team is built on strong family ties while the other four on strong community ties. This design allows us to analyze how informal businesses are established and grow when founders draw from different sources of strong network ties. In addition, the cases provided clear contrast in the role that gender plays within family business. In this study, we analyzed the narrative of the qualitative case-based data collected in the field as part of an independent impact assessment exercise. The fieldwork supporting the case studies took place in March/April of 2004. The cases selected for analysis are consistent with the requirements of grounded theory (Yin, 2003).

Tables 1 and 2 outline the eight case studies. The names of the businesses are disguised. To briefly summarize the cases, Matooke Hotel is a restaurant business headed by a mother of 12 children whose daughters take an active part in the business. Muluve is a carpentry workshop started by two brothers and their male cousin. Matumi is a business selling bicycle spare parts started by five married couples who are distant relatives. Nkoba is a business started by a husband and wife team to grow pineapples but is now run by the wife and her children. Mgomba Peasants is a business where five women work together to raise chickens and sell their eggs. Mbuyu is also a business founded by five women who buy and sell fruits and vegetables across their local region. Mwembe Community Project is a business where three groups of women, who attend the same church, run a grass-feed, chicken, and goat business. Finally, Mwiha Truck is an all-male business offering trucking services in a local region.

Analysis. The data analysis occurred in the five steps that are standard in qualitative analysis (Eisenhardt, 1989; Yin, 2003). Step one: *a priori* definition of the research questions that guide the research are developed (Strauss & Corbin, 1990). Step two: The researchers' generated a protocol to analyze the cases. This protocol builds on the key concerns identified in the research questions from step one. Specifically, the protocol provides a framework to examine the impact of strong ties, economic informality on the establishment, and growth of informal businesses. In developing the protocol, the

Table 1

Businesses Based on Strong Family Ties Case Summaries

	Matooke hotel	Muluve	Nkoba	Matumi bicycle spares
Nation	• Uganda	• Uganda	• Uganda	• Kenya
Business	• Restaurant	• Carpentry	• Farming	• Bicycle parts
Micro financing	• $100 initial/$300 follow-up	• $150	• $50	• $100/$300 empowerment grant
Family involved	• Husband died of AIDS 1994 • 12 children/6 grandchildren	• Two brothers and cousin	• Wife and children • Father largely absent	• Four couples and their children • Distant relatives and friends
Motivation for establishment	• Provide for large family • Educate children "as far as they can go"	• To pursue entrepreneurial careers as opposed to seek wage employment or be dependent.	• Exploit the perceived potential to grow pineapples and sell them in local market	• To "do something together to pull ourselves up" • To provide for 40 dependents of the four couples
Strategic focus	• Quality and service • Ensures all necessary hygiene and sanitary procedures—keeps food covered unlike competitors • Wakes up early so food ready when customers arrive. Competition still cooking. Polite and friendly to customers	• Quality at reasonable cost • Focus on beds—stable demand and higher price. Beds also cannot be made by street-side vendors who lack the necessary capital, space, and security for the necessary tools and material.	• No pineapples sold in area so no direct competition • Pineapples ripen slowly so no need to hire additional labor for harvesting, no spoilage, or storage • Target large hospitals and one college in addition to market	• Large supply of parts at reasonable price • "Incredible" service
Profit or revenue	• 52,000 USH per week—approximately $31; 300,000 USH in savings	• Approximately 850,0000 USH per year (70,000 × 12)	• Revenue 900,000 USH (15,000 plants per acre at 600 USH per pineapples)	• At least 600,000 USH other profit was retained for working capital
Records/banking	• None—no formal schooling	• Yes	• No	• No
Growth investment	• Several goats and cow; bicycle • New home buildings and 4 acres of land under cultivation for home use • Saving toward a new building	• A certificate in woodworking skills for one of the entrepreneurs from a local technical college • Woodworking tools; a small stock of timber • A reputation for quality furniture items	• The grant was used to plough the field and purchase pineapple suckers for planting	• A small kiosk from which to sell their goods • A cow • Large amount of stock for the bicycle spares business

Evolution of the business	• Initial business was to sell a specific type of vegetable; when that proved unviable, switched to selling prepared food • The restaurant generates sufficient income by opening only 1 day a week—market day. Other days are spent caring for her children and home, and gathering supplies and growing crops for market day. • There is a plan to expand into a household goods shop, once the new restaurant building is complete.	• Evolved from brick making and retailing sugarcane to picture taking to hair salon to carpentry • Sent one brother to carpentry school with proceeds from earlier business activities • Reinvested some profits from initial furniture sales but struggled to build sufficient working capital for the business • Cash flow problems emerged frequently as they were forced to change location on several occasions, resulting in lost production, lost sales, and the need to rebuild a customer base in a new location • A key risk to the business is that they do not own premises. They have not been able to address this risk. • Founded assoc to address HIV/AIDS in young people • Several men volunteer at the firm to learn the business	• Only part of the initial grant was needed to pay a contractor to plough their field, and another intermediary to purchase the pineapple suckers. • The remainder of the grant (roughly 40%) was used for purposes other than to develop the business. Part was spent on fees for the father of the family to attend college. This study was not related to the business and the father was unavailable to assist in the business. Some funds were used for repair of family houses in the compound.	• The group began retailing household goods • They took a joint decision to reinvest 100% of profits back into the business. In emergencies, "borrowing" from the business was allowed, but interest was charged and the loan had to be repaid. All such loans were repaid, including the interest. The first "salary" taken by the group was in the form of a purchase—a cow, itself an investment. • The kiosk outperformed other similar businesses in the area. However, a new supermarket was built next door, reducing the income from the kiosk. • Nevertheless, it continued to generate some profit, and this was used to purchase bicycle spares which were displayed in front of the kiosk. This business grew strongly. A larger location was found, a friend was employed to run the kiosk, and the group focused on building the bicycle spares business with the help of an empowerment grant of $300. This enabled the purchase of a more complete range of items. The group was able to supplement the empowerment grant with $150 out of saved profits from initial sales in the bicycle business. • Each member of the group rotates roles so every one knows all aspects of the business • Moving to buy unassembled bikes and sell them as parts

USH, Ugandan shilling.

Table 2

Businesses Based on Strong Community Ties Case Summaries

	Mgomba peasants	Mbuyu	Mwiha truck	Mwembe community project
Nation	• Kenya	• Kenya	• Uganda	• Kenya
Business	• Chicken eggs	• Retail fruits, vegetables, and grains	• Construction/wholesale/bricks/trucking	• Napier grass for cow feed, poultry, vegetables, goats, sheep
Micro-finance	• $100 initial grant, of which only $50 actually paid; $300 follow up	• $100 grant of which only $50 was actually paid	• $100 initial grant • $7,600 loan for purchasing truck	• $100 granted, but only $50 actually paid
Ownership, leadership	• Not family—five women friends	• Not family—five women friends	• Not family—five male friends (after raid by Lord's Resistance Army [LRA], the group drops to three as others move away)	• Not family—three groups each of 10 women representing the most needy families in a church
Motivation for establishment	• Reduce reliance on meager income of husbands who do not have reliable employment • To work collectively to overcome some of their daily challenges	• To work together to lift themselves out of grinding poverty and a daily struggle to survive • To improve food security for families • To be able to afford to send children to school	• Passionate about the idea of creating a profitable business	• Caring for the poorest families in a church community
Strategic focus	• Very few individuals grow chickens for eggs in area—the result is individuals come up to 12 km for eggs.	• Provide wholesale/retail service to growers • Gain a reputation as trusted buyer and trusted vendor • Only one of two trusted vendors at a local high school • They are very strategic in where they sell produce so as to obtain the highest possible price	• The group used truck to expand into new businesses in which the truck would provide them a competitive advantage—growing rapidly until political upheaval	• Working toward the acquisition of a cow, the ultimate, single value-producing asset within many people's immediate reach • Rapid accumulation of capital toward the goal of purchase the cow
Profit or revenue	• 30,100 KES	• Precise information not available, but clear evidence of good profitability as the women have been able to pay for school fees and obtain additional land to improve the food security of their families	• Following the raid by the LRA, over 6 million in USH was lost • Moved to a the new area of business and population is largely refugees	• 21,800 KES after 2 years from 24 harvests of cow feed, two vegetable harvests, 6 goats
Growth investment	• 180 chicks • Cow; insemination of cow	• Little investment in any physical assets • Investment is in the development of their reputation	• Rice seed; truck • Four oxen and ox plough	• Napier seed; 20 chicks; 6 goats

Evolution of the business	• The group began a revolving credit fund for the purchase of household items and to build up a savings fund • After the group leader took advice on starting a poultry business (for selling eggs), some of the savings were used to purchase 30 chicks. These were farmed as layers, sold, and successive batches of new chicks were purchased, farmed, and sold. • Owing to limited space, the poultry business was limited in terms of growth potential. So the $300 empowerment fund was used to purchase a cow rather than more chicks. • All the profits from the layers plus some money raised by the husbands had to be invested in feed for the cow which was due to give birth to its first calf	• The group developed a range of suppliers that specifically produce extra crop in order to sell • The group became appointed as one of only two trusted food vendors allowed to sell goods on the property of a local high school • The profits generated from the business appear to have been spent largely outside of the business, e.g., on paying school fees and obtaining additional land to improve the food security of the families of the five women. The produce of this land is not for sale but rather for consumption in the homes.	• Early focus on growing and selling of rice and groundnuts. Purchase of a truck in order to reduce the costs of transporting their produce to a market town where better prices were achieved. • Started to offer trucking services to other farmers. The group starts offering construction services to government, e.g., for building classrooms. • The group faced some significant setbacks, e.g., a large bed debt on a government contract and severe drought. Their diversified operation enabled them to survive. • The group opened a wholesale shop and brick-making business. • The business was then hit by an invasion by the LRA. Only the truck was saved.	• The initial seed money for the first two projects (Napier grass, vegetables) came from specific collections among congregants • Profits from first two projects plus a $50 grant used to purchase 20 chicks for the second group • Profits from the first two groups were used to purchase a goat, thus launching the third group. Further contributions from Groups 1 and 2 were used to purchase two more goats for third group.

USH, Ugandan shillingl KES, Kenya shilling.

researchers discussed expected categories of outcomes based on the theoretical and empirical literature from family business, economics, sociology, and economic development literature. Step three: The researchers analyzed the cases employing the following protocol. In analyzing the cases, the researchers built and modified the categories generated from step two as information supportive or counter to expectations was discovered. In addition, the researchers created new categories of insights as needed if a finding did not fit into existing categories. Each researcher employed the protocol separately. Step four: The results among the three researchers were contrasted and consensus was reached. In addition, the researchers triangulated the evidence generated with other available archival data and expert informant data. Although there is a high degree of consistency among the researchers and outside experts, this step is particularly important in reconciling any differences or explaining disparities. This additional information included interviews with outside African experts. Step five: The researchers lastly present their evidence and generate a set of testable propositions that lay the groundwork for future research. Earlier, we posed two research questions, each of which we will now examine.

Empirical Evidence

Research Question 1: How do strong family ties operating in the context of economic informality affect the *establishment* of entrepreneurial businesses in East Africa?

The eight case studies represent four businesses built around strong family ties and four built around strong community ties. Both types of businesses also show a distinctive pattern of gender segregation with only two of the eight cases having mixed gender founding teams. To illustrate, among the firms with strong family ties is Muluve, a carpentry shop founded by two brothers and a male cousin. The restaurant, Matooke Hotel, was founded by a widow and mother of 12 children of whom only the daughters are involved in the business. Similarly, among the firms with strong community based networks five women established an egg farm, Mgomba Peasants, five other women established a retail fruit business, Mbuyu, and three groups of ten women run Mwembe Community Project. Mwiha Truck has five male founders who joined "to do something together" (Mwiha Truck Case).

In many cases, there are teams of women who start the business while their husbands are unemployed but play a remarkably small role in its operation. Similarly, in one of the two mixed gender businesses, the male head of household initiated Nkoba but shortly after founding left, leaving his wife, two sons, and two daughters to run the business. Matumi Bicycle Spares has four married couples working together as partners and joint owners in the business. This is arguably the only business where the men and women appear to have maintained equal degrees of commitment to the business.

Two issues emerge as we initially consider these cases: Why do entrepreneurs look to community networks for business partners, and how do they make decisions about the gender composition of their teams? Our interviews with experts shed light on what was observed in the field. First, when married women start businesses, such businesses are generally viewed as the property of their husbands. A husband would be entitled to remove stock, assets, or cash from a business run by his wife (or wives in the case of polygamous marriages which are common in Uganda). If a man dies, businesses run by his wife can be claimed by members of his family as their property. Widows (and their children) who had run successful businesses might thus be left destitute and homeless by the death of their husbands.[4] As a result, married women may choose to limit the influence of their husbands and their husbands' families in their businesses by involving one or more other individuals with whom they have strong ties in the community. A partner from outside a married woman's family will be more effective at limiting her husband's influence because family members will tend to defer to her husband's authority. With a nonfamily partner, the business cannot be construed as belonging to one family. This limits the influence of the husband and his family's ability to claim its proceeds, "the business partner's interest would generally be respected" (M. Jere, personal communication, July 7, 2008).

If only one nonfamily person is brought into a woman's business, cultural expectations would require it to be another woman. If there were one or more other women involved, it might also be possible to involve several men and still exclude the husband, but this would not be common. Women would naturally choose to involve other women and avoid making their husbands suspicious. Thus, social norms mean that women have strong incentives to form businesses with other women, and family norms push them to partner with women to whom they are not related by marriage.[5] Men also have incentives to add partners from outside the family. Culturally, the lines between what a man owns and what his brother owns are blurred. What his brother owns is effectively his as well. This has important implications for a family business. If all owners are members of the same family, then the entire extended family has a claim on the proceeds of the business. Choosing a partner from outside his family enables a man to respond to family appeals by saying: "I would like to help, but I can't employ you or give you money since the business is not solely mine" (M. Jere, personal communication, July 2, 2008). Hence, a nonfamily partner helps men as well as women to keep family members at bay. However, because men have natural authority within the family, they are likely to be under less pressure to adopt an ownership diversification strategy than women entrepreneurs whose property rights are subject to traditional norms and pressures of strong extended family ties. In addition to pressures from strong extended family ties, the lack of property rights protection for informal businesses creates further incentives for men and women to diversify ownership away from family members when the business is first established. This leads us to propose:

> **Proposition 1: a.** In East Africa, the traditional pressures of strong extended family ties lead entrepreneurs to establish businesses with those partners with whom they have strong community ties. **b.** This effect is more pronounced for businesses established by female entrepreneurs than by male entrepreneurs.

> **Proposition 2: a.** In East Africa, economic informality creates an additional incentive for entrepreneurs to diversify ownership away from strong extended family ties. **b.** This effect is stronger for women than it is for men.

Research Question 2: How do strong family ties operating in the context of economic informality affect the *growth* of entrepreneurial businesses in East Africa?

Many of the firms we analyzed underwent significant evolution over time, particularly if their businesses encountered difficulties. For example, Muluve, Matumi Bicycle Spares,

4. Educated women with the necessary financial resources would be able to protect their legal rights to their own business through formal registration. However, this option is not feasible for the uneducated rural poor. Some African governments, e.g., Zambia and Ghana, have recently legislated to protect the property rights of widows.
5. Certainly, men may form a business with other men within or outside the family for reasons of gender work stereotypes—"heavy" work such as carpentry, construction, and transport is a male domain.

and Mwiha Truck all started as very different businesses than where they ultimately found success. In each case, the entrepreneurs had to adapt and change. For example, Matumi Bicycle Spares business started out selling small household items. When a grocery store opened in the same area, the entrepreneurs recognized that they might not be able to grow their business selling retail households items. As a result, they diversified into selling bicycle parts for the bicycle-based taxis that are common in many African towns. The firm later expanded and now carries a full range of bicycle parts. Muluve, the carpentry business, went through an even more dramatic evolution as the firm moved from manufacturing bricks, to trading sugar cane, to photography, to a hair salon, to ultimately running a carpentry shop. Mwiha Truck also made significant changes in its activities over time as the profits of the firm rose. The business diversified into large construction projects, brick making, and a wholesale store, all of which benefited from their key asset—the truck.

Our observations are consistent with those of development economists who suggest that one benefit of the informal economy is low entry and exit barriers. We suggest that economic informality allows for rapid cycling though business opportunities that can allow entrepreneurs to move to higher value-creating ventures. However, our evidence from East Africa suggests that men and women adopt different approaches to growth. Male entrepreneurs appear to experiment more and on a larger scale. In one of the case studies, a male entrepreneurial team sequentially pursued as many as six unrelated businesses within three years of founding. Women entrepreneurs appear to experiment far less than men; in fact, in only one case did women entrepreneurs abandon their initial business. Instead, women seek to improve on the business idea that motivated their initial entrepreneurial effort.

The rapid entry and exit of businesses by male entrepreneurs appears to be a response to disappointing early results (Muluve, Mwiha Truck), major setbacks (Muluve), or expectations of more lucrative and easier opportunities (Muluve, Mwiha Truck). In addition, male entrepreneurs paid less attention to the improvement of their existing businesses than did female entrepreneurs. For example, one team of male entrepreneurs, Muluve, was repeatedly thrown out of rented premises but made no attempt to either change business practices or acquire a facility. Hence, they continued to face the same fundamental business risk. Businesses run by women also faced disappointments and major setbacks, but their response was typically to improve the existing operation rather than to close it or to build new businesses. Women continuously reinvested their profits to improve the infrastructure of the businesses that they started. To illustrate, when Mwembe Community Project had a set of chicks die, they did not abandon the project. Instead, the women sought to figure out the cause for the deaths and then sought to avoid that problem with the next set of chicks that were purchased.

Certainly, men and women not only bring distinctive perspectives, motivations, and approaches to the entrepreneurial process, but they also face different constraints. The pursuit of entrepreneurial opportunity clearly motivates male entrepreneurs in the case studies to take risks. They articulate how passionate they are to "pursue entrepreneurial careers" (Muluve) and "build profitable businesses" (Mwiha Trucking). Although women entrepreneurs also aspire to success and have ambitions for the education of their children,[6] their primary motivation is the basic provision for their families. In East Africa,

6. For example, the widow who runs Matooke Hotel hopes that her daughters, who are studying to be teachers, will one day help her keep better business records. Currently, her record keeping is nonexistent, and her savings ". . . she prefers to keep 'invested traditionally . . . in the world bank!' With that statement, [she pats] the mud floor of her home proudly . . . she literally [buries] the money" (Matooke Hotel).

women are responsible for the basic survival of their children while men are not expected to provide for their children's primary needs. Because of this, failure in business can have devastating consequences for women. In addition, strong family ties and obligations constrain the businesses women start. As a result, they experiment less, appear to take fewer risks, and stick closer to the businesses they originally established. Therefore, we propose that:

> **Proposition 3:** In East Africa, the strong family ties reduce the flexibility of female entrepreneurs to experiment with unrelated businesses at the same time as they increase the flexibility of male entrepreneurs.

> **Proposition 4:** In East Africa, economic informality reduces the cost of experimenting with unrelated businesses. Male entrepreneurs benefit from this opportunity while the strength of family ties constrains female entrepreneurs' ability to experiment with unrelated businesses.

Discussion

Our evidence shows that entrepreneurs in East Africa rely on both strong family ties and strong community ties to establish their businesses. However, the traditional constraints of strong extended family ties mean that entrepreneurs are more inclined to establish businesses with those partners with whom they have strong community ties rather than strong family ties. This effect is greater for businesses established by female entrepreneurs than by male entrepreneurs. The reliance on strong community ties appears to be a vital means of limiting the scope for family members to appropriate resources from the business and thereby undermine its sustainability. Again, this effect appears stronger for women than it is for men. The position of women in the society makes it easier for men to appropriate assets from their female family members than from other men. As a result, female entrepreneurs opt to bring in outside partners in the business in order to limit the participation of those individuals who can appropriate the benefits. Finally, economic informality reduces the cost of experimenting with unrelated businesses, but strong family ties restrict the flexibility of female entrepreneurs in pursuing growth opportunities or experimenting with unrelated businesses. Thus, when we examine entrepreneurship in an institutional setting like Africa, the opportunities that entrepreneurship provides for males and females may be very different.

Strong extended family ties do create an opportunity to mobilize resources (Bruton & Rubanik, 2002); however, this opportunity is subject not only to the cost of collective action but also to opportunism and agency (Stewart, 1990, 2003; White, 1994). Our findings are consistent with prior literature which suggests that family obligations (Stewart, 1990, 2003), burden of tradition, and inflexibility (Kets de Vries, 1993), as well as a lack of professionalism (Neubauer & Lank, 1998) may undermine the entrepreneurial process in family businesses. Strong extended family ties play a constraining role in East Africa where traditionally individual property rights are not common and the acceptance of economic informality means that the law cannot provide any meaningful protection. Such a combination of factors creates the specter of free riders and outright expropriation by family members who are otherwise uninvolved in the business. This reduces the motivation of individuals to take advantage of opportunities and forces entrepreneurs to adopt strategies that temper the control of family on business. Similar to our study, prior research has found that the mechanisms for limiting the power of strong family ties includes the entrepreneur "disembedding" from kinship relationships (Portes & Landolt, 1996), resisting excessive demands from extended family for jobs or resources (Stewart, 1990, 2003), and independent nonexecutive directors on the boards of family businesses (Neubauer & Lank). Certainly in the case of women entrepreneurs in rural East Africa, the pressure to involve nonfamily members in order to limit the involvement of family may be an overriding consideration. The limited voice within extended family structures forces female entrepreneurs to "exit" the extended family where business ownership is concerned (Hirschman, 1970). Our observations of how strong family ties constrain action and force individuals to seek neutralizing solutions are broadly consistent with the dark side of social networks (Portes & Landolt). To a family business audience, our paper illustrates a context in which strong family ties can inhibit—rather than enhance—entrepreneurial action. Thus, family can be both an enabler and an impediment to business development. However, our evidence suggests that strong community ties provide a vital resource in the establishment of their entrepreneurial businesses based on mutual trust and reciprocity. As such we argue that the relevant framing is the interplay of different types of strong ties to which individuals have access.

Finally, our research also raises important issues about the place of informal businesses in the research agendas of entrepreneurship and family business scholars (Vought, Baker, Smith, 2008). Economic informality is part of the institutional context of business in Africa, and a major economic force in most emerging nations (Siqueira & Bruton, 2009). Informal businesses do not play a central role in the economies of the United States, Canada, or Western Europe and therefore are largely absent from the research in entrepreneurship. However, in many emerging economies, such firms play a major if not the dominant role. This research lays the foundation upon which to examine the nature of informal family firms. Future research should expand our understanding of how informality impacts family businesses both positively and negatively. Researching family businesses in Africa offers a rich setting in which to stretch the boundaries of the family business literature. We focus on East Africa extended family or kinship structure and related norms, which are markedly different from those in North America or Western Europe. Indeed, in many emerging markets family networks are common units of production, distribution, and exchange (Khanna & Rivkin, 2006; Luo & Chung, 2005); however, the mechanisms that makes them effective differ. Context matters and the case of informal family businesses in Africa demonstrates this unequivocally.

Future Research

In part, the goal of our research was to extend the boundaries of family business research to the African context. Our evidence reflects some of the contextual constraints on informal family businesses in the East African countries of Kenya and Uganda. The cases reflect relatively successful East African informal businesses into which an equity-based funding agency saw fit to invest. The cases were selected for an assessment of a microfinancing program; as a result, they focused on both relatively successful and unsuccessful firms. For example, Mwiha Truck was by far the largest investment that the microfinancing agency made among the cases we examined, and it was a failure. Such a mixture of successful and unsuccessful cases is important to the grounded theory process. The other steps in the grounded theory process also increase our belief in the validity of the evidence such as the use of a large number of outside experts in interpreting the data.

Our work opens doors for future research. The richness, complexity, and diversity of entrepreneurial activity in Africa cannot be captured in one study. Indeed, the evidence here is from East Africa. Therefore, there is a need to explore a broader set of African nations. There also is a need for rich research to expand our knowledge of family business in Africa. For example, we need more depth in understanding how teams of family and teams of unrelated individuals come together to form the business. This research should be both qualitative and quantitative in nature. In qualitative research, a richer set of variables including the education of all participants, the religion of all participants, and the specific tribe of each participant should be examined. However, there are limits to qualitative research. Therefore, there is a need to also test the propositions developed here though a large sample quantitative approach. For example, future research could test by inference the effects of marital status, the diversity of founding team family and nonfamily members, specifically, the effect of gender diversity on choice of initial business, and the growth strategies of the businesses over time. Analysis of possible differences between language groups and countries in the nature of family ties and their impact on the probability of success of family businesses would be valuable. Furthermore, researchers should use psychometric methods to assess how entrepreneurs perceive the effects of strong family ties. Likewise, a longitudinal design could be used to evaluate the improvement in the standard of living of the entrepreneurs. For instance, one question that spans the gap between business strategy and gender might be: Does rapid cycling through business strategies lead to a higher standard of living for the entrepreneurs that pursue it? Finally, we would strongly advocate a matched sample design to tease out the effects of economic informality on establishment and growth of businesses.

Conclusion

Africa can be characterized by its grinding poverty (World Bank, 2008). Past reliance on government aid alone to lift nations out of poverty has been a failure (Collier, 2007). A key hope for the future is that entrepreneurship can end that cycle of poverty. Indeed, the idea that private initiative has the potential to bring a large number of individuals out of poverty (Collier) has spurred an industry of private and public microfinance assistance agencies. Our study of informal businesses in rural East Africa has important implications for such agencies operating in that region. For example, the findings suggest that funders designing microfinance programs in rural East Africa should be mindful of the power of strong extended family ties particularly as they affect women. These results may also have relevance beyond rural East Africa, but confirming that will require further research for which we have laid the foundation in this paper.

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