Growth aspirations of young informal micro-entrepreneurs in Nairobi, Kenya: A case study of the *jua kali* manufacturing sector

by

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Abstract

Entrepreneurship in the *jua kali* sector presents a potential solution to the unemployment crisis in Kenya by creating opportunities for self-employed youth and other young people they hire. This study examines the growth aspirations of young *jua kali* entrepreneurs and identifies the underlying reasons why some are more growth-oriented than others. The study is based on primary data collected through interviews with 58 young *jua kali* entrepreneurs in Nairobi's manufacturing sector. The results indicate that the vast majority of *jua kali* youths aspire to expand their firms and employ additional workers in the next five years. Entrepreneurs in the garment sub-sector have the highest growth aspirations. Higher aspirations are also more prevalent among those with family support, those with relevant employment and business experience, those who are older, and those with a secondary education.

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1 Chapter: Introduction

Population levels in sub-Saharan Africa are heavily skewed towards the young. In fact, the region has the youngest and fastest-growing population in the world, with more than half of the population under 25 years of age (Filmer & Fox, 2014). While a 'youth bulge'[1] can be a tremendous resource and contribute to accelerated economic growth if properly harnessed, it can just as easily become a source of social and political instability if there are insufficient job opportunities for youth. For many African countries, this 'youth bulge' presents wide-ranging challenges that are strongly shaping development policies and processes. One of the most pressing challenges is its effect on youth employment, as labour markets are unable to absorb the massive numbers of young people entering the workforce.

Kenya has the largest number of jobless youth in East Africa, with young people making up 70% of the unemployed working-age population (Republic of Kenya, 2015). In the absence of formal job opportunities, most young Kenyans are seeking work in the country's vast informal sector – the part of the economy that is largely not taxed or monitored by any form of government. Consequently, the informal economy has become Kenya's largest employer, employing an estimated 83% of working Kenyans (Republic of Kenya, 2015). Young people who are unable to find employment are creating jobs for themselves by setting up businesses, a trend that has been championed as a solution to the rising youth unemployment crisis (Herrington & Kelley, 2012; Africa Commission, 2009). The result is Kenya's booming *jua kali* sector.

Jua kali means 'fierce sun' in Kiswahili. It is the name given to the millions of workers in Kenya's informal economy who historically worked under the beating equatorial sun,

[1] A 'youth bulge' is a demographic phenomenon where the proportion of youth (15 – 24 years) in a population increases significantly compared to other age groups

day in and day out, without any shelter. Today, *jua kali* workers and business owners engage in a wide range of sectors and operate in various types of premises. They include retailers, *boda boda*[2] drivers, hawkers or small-scale traders, craftspeople, metalworkers, car mechanics, and other service providers. The *jua kali* sector has been prevalent in Kenya's economy for more than three decades and continues to play an important role in absorbing youth who would otherwise have no income-generating options. The ease of entry and exit into the *jua kali* sector makes it an environment where many young people can turn to earn a livelihood. The World Bank has acknowledged that this kind of informal entrepreneurship is a lifeline for Kenya's youth (Handjiski et al., 2016). It not only creates employment opportunities for young entrepreneurs and other people they hire, but also brings marginalized youth back into the economic mainstream and addresses the delinquency that arises from joblessness (Schoof, 2006).

Although the informal sector is recognized as an important source of employment creation, most *jua kali* firms are one-person establishments that employ only the owner (Safavian et al., 2016; Handjiski et al., 2016). Moreover, the vast majority are not expanding or hiring additional workers (Safavian et al., 2016). These findings concur with reports from the Global Entrepreneurship Monitor (GEM) – the world's foremost study of entrepreneurship – which suggest that many firms in sub-Saharan Africa are "low margin, 'me too' businesses that have very little differentiation and are possibly driven by necessity" (Herrington & Kelley, 2012, 7). GEM data shows a significant fraction of entrepreneurs worldwide are driven by necessity, especially in economies characterized by low-skilled labour like Kenya (Singer et al., 2014). Those pushed into self-employment out

[2] Motorcycle taxis commonly found in East Africa

of necessity are widely believed to run smaller firms and have lower growth expectations than other entrepreneurs (Poschke, 2013; Block & Sandner, 2009). However, the empirical basis for this is rather thin.

While there is a growing body of literature on the characteristics of *jua kali* businesses and the obstacles they face, what we do not know is the extent to which young *jua kali* entrepreneurs intend on growing their firms. It is often assumed that they are necessity-driven and thus subsistence-oriented, rather than growth-oriented. While existing data shows the majority of *jua kali* firms remain small, it is unclear whether or not this is a deliberate decision of the young men and women behind these businesses. A number of questions remain unanswered: Do they have the desire and willingness to grow their firms, or are they satisfied with the status quo? If they had the means, would they try to further develop and expand their firms? Why do some entrepreneurs have higher aspirations for growth than others? Answering these questions is critical because research has shown that the growth of a firm is at least to some extent determined by the growth motivation of the entrepreneur. In other words, growth aspirations matter: all other things equal, entrepreneurs' ambition is a good predictor of subsequent growth (Autio & Acs, 2010).

Despite the increase in data on Kenya's informal firms in recent years, in-depth research is lacking on the growth aspirations of *jua kali* entrepreneurs. To my knowledge, there have been few attempts to generate concrete data on their intentions to further expand and employ others. Since the *jua kali* sector is viewed as an important source of employment creation for youth in Kenya, there is a need to develop more tangible evidence-based knowledge about the growth potential of the young entrepreneurs leading these ventures. This thesis aims to develop this knowledge by collecting and analyzing

primary data from young *jua kali* entrepreneurs on their intentions to create employment through entrepreneurship. The study measures growth aspirations not by the entrepreneurs' intended sales growth, but by the number of additional people they aspire to employ in the next five years. Beyond identifying their growth aspirations, this study also seeks to identify the factors that help explain variation in growth aspiration levels, generating insight into why some entrepreneurs are more growth-oriented than others. Moreover, this thesis contributes to a growing body of literature on necessity and opportunity entrepreneurship by investigating the widely held belief that those pushed into self-employment out of necessity have lower aspirations for growth.

Stimulating growth-oriented entrepreneurship, which can contribute to macroeconomic growth (Stam et al., 2011), is prominent on the agenda of policy-makers in Kenya. Growth-oriented entrepreneurship is said to have enduring value, as entrepreneurs with high growth aspirations are more likely to create employment for others. The World Bank (2012) postulates that if each entrepreneur with high potential for success were to create a single additional job, total employment in low-income countries would increase substantially. In Kenya, this would amount to an estimated 8% increase in employment (World Bank, 2012). With the Kenyan government under immense pressure to create enough jobs for the emerging labour force, understanding what propels some young entrepreneurs and not others to seek growth is therefore of critical importance. Since the *jua kali* sector is where the bulk of Kenyan youth are starting their businesses and where many are turning to find work, it is essential to take a closer look at the growth potential of young entrepreneurs in this context.

By establishing the intentions of *jua kali* entrepreneurs and the extent to which they

aspire to grow their firms, this study contributes to broader discussions of the employment creation potential of informal enterprises in Kenya. Furthermore, by generating insight into why some young entrepreneurs have higher aspirations for growth, this study can inform interventions to help transform even more young Kenyans from job seekers into job creators. As the United Nations Economic Commission for Africa (2014) stressed, "limited knowledge about the extent of the [informal] sector makes it difficult for policymakers to formulate appropriate social, employment and tax policies, or to improve the business environment for informal production units" (1). Thus, the knowledge gained from this research could support decision-makers in Kenya, informing policies and interventions that can help entrepreneurs achieve their desired levels of growth and generate the jobs they aspire to create for others.

The organization of this thesis is as follows. In the second chapter, I provide the context for this study by further examining youth unemployment and entrepreneurship in Kenya. I discuss Kenya's 'youth bulge' and demonstrate that the number of youth entering the labour market each year exceeds the number of jobs being created. I examine how entrepreneurship is filling this void by creating job opportunities for self-employed youth and the other young workers they employ. Specifically, I discuss how youth are turning to the *jua kali* sector and what this means for employment creation in Kenya.

In the third chapter, I outline a conceptual framework through which the growth aspirations of Kenya's young entrepreneurs can be analyzed. I explore the literature on the determinants of small firm growth and growth aspirations, paying particular attention to a model developed by Per Davidsson (1989) which is formative to my work. I examine some of the complexities of entrepreneurship in developing countries and show how Davidsson's

model can be adapted to the sub-Saharan African context. I present the conceptual framework that informs this research, including the research questions and hypotheses that are examined in this study.

In the fourth chapter, I outline the research methodology employed in this study. I present a description of the research design and data analysis, discussing in greater detail how data was collected over four weeks in Nairobi through semi-structured interviews with 58 young entrepreneurs in the *jua kali* manufacturing sector. I describe the research sites and sampling methods used, and explain how the data was analyzed and presented.

In the fifth chapter, I present the results of the data analysis. I identify the growth aspirations of young *jua kali* entrepreneurs in Nairobi and distinguish which factors matter the most for explaining variation in growth intentions. In particular, I build on the three broader concepts – ability, need, and opportunity – conceived by Davidsson (1989) as shaping growth aspirations, and identify commonalities among non-growth and growth-oriented entrepreneurs. I also examine the motivation of *jua kali* youth and assess the common representation of entrepreneurs as either necessity- or opportunity-driven. I investigate the relationship between motivation and growth aspirations, questioning the assumption that necessity entrepreneurs are unlikely to aspire for growth.

Finally, in the sixth chapter I discuss the research findings and their broader implications for youth entrepreneurship and employment in Kenya. I highlight the main research contributions of this thesis to the study of *jua kali* entrepreneurship and the growth aspirations of entrepreneurs in developing countries, outlining potential areas for further research on this topic. I also highlight several policy recommendations and offer some concluding thoughts.

2 Chapter: Background and Country Context

There is strong and growing evidence in entrepreneurship research that economic behaviour varies from one national context to another (Stephan & Uhlaner, 2010; Hayton et al., 2002; Welter, 2011). In a paper exploring the multiplicity of contexts and their impact on entrepreneurship, Welter (2011) argues that: "economic behaviour can be better understood within its historical, temporal, institutional, spatial, and social contexts, as these contexts provide individuals with opportunities and set boundaries for their actions" (165). Prior studies have shown that the dynamics of entrepreneurship can vary vastly depending on the level of economic development of the country within which it occurs (Wennekers et al., 2005; Acs et al., 2008). Moreover, while considerable differences in entrepreneurial activity may exist across countries or political systems, they may also exist in more proximate contexts, such as the social environment or local traditions (Welter, 2011).

In this chapter, I introduce some elements of the Kenyan context that influence the environment in which young entrepreneurs operate. First, I examine the problem of youth unemployment in Kenya, which has been largely attributed to the country's ever-growing labour force and the insufficient absorptive capacity of the economy. I take a look at some of the factors that make it difficult for young Kenyans to find meaningful employment, including few job opportunities, high competition, persistent gender gaps, job selectiveness, lack of requisite skills, and corruption. I then examine how entrepreneurship has evolved in response to Kenya's youth unemployment crisis and how it presents a partial solution by creating jobs not only for the entrepreneurs themselves, but also for the workers they hire. Given that most entrepreneurs in Kenya operate informally, I also discuss the country's vast informal economy, introducing the *jua kali* sector and shedding light on both

the importance and shortcomings of informal employment as a source of income for many Kenyan youth.

2.1 Youth unemployment in the Kenyan labour market

The Kenyan economy has been doing well in recent years. In fact, Kenya currently has the largest economy in East and Central Africa and has thus been championed as one of sub-Saharan Africa's so-called *lion economies*. World Bank data (2016) shows that from 2010 to 2015, Kenya's GDP grew at an average rate of 5.9% and it is projected to continue rising at similar levels in 2016 and 2017 (Kiringai & Sanchez Puerta, 2016). However, the economic gains Kenya has experienced over the past decade have not been very transformative. Agriculture is still the backbone of the economy, manufacturing has not taken off, and "service industries account for only a marginal share of employment" (Kimenyi et al., 2016, 7). Furthermore, although the economy has been registering positive economic growth, it has been unable to provide adequate employment for Kenya's overwhelmingly young population. As I discuss in this section, one of the major hurdles Kenya must overcome as it strives to transform into an upper-middle income country is widespread unemployment and joblessness among youth.

2.1.1 Rapid population growth and not enough jobs

Just as Kenya's economy is growing, so too is its labour force: from 1990 to 2014, the share of the working-age population (ages 15 – 64 years) increased from 47% to 56%, and it is projected to rise to 62% by 2050 (Handjiski et al., 2016). Kenya has long dominated the rankings of population growth in Africa and in the world. The Kenyan population has increased six-fold since independence, growing from around 8.1 million in 1963 to more than 46 million in 2015 (World Bank Data, 2016). For more than 20 years, from 1967 -

1991, Kenya had the youngest population of any country, with children under 15 years of age making up nearly 50% of all Kenyans (World Bank Data, 2016). Today, Kenya continues to have one of the youngest populations in the world: 42% of Kenyans (more than 19 million) are less than 15 years old and around 80% (almost 37 million) are less than 35 years old (World Bank Data, 2016; Awiti & Scott, 2016). The fertility rate is still high, at over 4 children per woman, and the population continues to grow at a rate of 2.6% per year, above the world average of 1.2% (World Bank Data, 2016). Over the years, this rapid population growth has resulted in a relentless youth bulge that continues to put pressure on the economy to create enough jobs for new labour market entrants.

Although many jobs have been created in recent years, employment creation has not been able to keep up with the speed of the country's population growth. On average, the economy generated roughly 800,000 new jobs each year between 2006 and 2013, with employment growing at 4.5% per year (Kiringai & Sanchez Puerta, 2016). In 2014 and 2015, labour market performance remained modest with total employment outside small-scale agricultural activities growing by 5.9% each year to an estimated 15.2 million jobs by 2015 (Republic of Kenya, 2016). With nearly one million individuals entering into the labour market each year (Kaane, 2014), this rate of job creation is "not enough to make a sizeable dent in unemployment and underemployment" (Kiringai & Sanchez Puerta, 2016, 41). Simply stated, there are far more young people than there are decent jobs to support them, and the gap is not improving; it is estimated that 9 million more youth (which amounts to approximately 35% of the current working-age population) will enter into the Kenyan labour market in the next 10 years (Kiringai & Sanchez Puerta, 2016).

2.1.2 Unemployment and underemployment among youth

Young people between the ages of 15 - 34 years have the highest rate of unemployment in Kenya at an estimated 67% (Kaane, 2014), compared to the official total national unemployment rate of 9.2% (World Bank Data, 2016). It is estimated that 80% of the country's unemployed population is between 15 and 35 years of age (Zepeda et al., 2013). While official numbers indicate that Kenya's total unemployed population is 2.3 million, as in other developing countries these official rates only reflect part of the unemployment problem. Many of those who are considered "employed" are actually underemployed, meaning they engage in subsistence activities or lower skilled jobs that pay less than minimum wage rather than becoming unemployed, or that they work shorter hours when they are available and willing to work more (Vuluku et al., 2013).

Underemployment often equates to vulnerable employment, which is characterized by lack of protection, lay-offs without notice, inadequate earnings, irregular or long working hours, unsafe or risky work conditions, and no social security, among other factors. As Herrera & Merceron (2013) argue, standard unemployment indicators are inadequate in sub-Saharan Africa where the quality of employment plays such an important role: "There is a huge gap between the classic measure of unemployment on the one hand, and underemployment and the reality of the situation…on the other" (84). The reality in Kenya is that the vast majority of jobs created are in the informal sector, where underemployment is a common problem.

The Kenyan labour market, as in many other African economies, is marked by a visible dualism of formality and informality. The formal, regulated labour market is small and contrasts sharply with its massive informal, unregulated market in which those who would

otherwise be labelled as 'unemployed' operate (Nielsen, 2012). Employment in the informal sector dominates total employment in Kenya, absorbing many unemployed youth into the labour force. As Table 1 shows, an estimated 82.8% of employed Kenyans currently work in the informal sector (Republic of Kenya, 2016).

Table 1: Contribution of Informal Sector and MSEs to Employment in Kenya (in Thousands)

	2011	**2012**	**2013**	**2014**	**2015**
Formal Wage Employees	2,084.1	2,155.8	2,283.1	2,370.2	2,478.0
Formal Self-employed	73.8	76.9	83.8	103.0	123.2
Sub total	**2,157.9**	**2,232.7**	**2,366.9**	**2,473.2**	**2,601.2**
Informal sector*	9,958.3	10,548.4	11,150.1	11,846.0	12,559.6
Total	**12,116.2**	**12,781.1**	**13,517.0**	**14,319.2**	**15,160.8**
Percent of Formal Sector Employment	17.8%	17.5%	17.5%	17.3%	17.2%
Percent of Informal Sector Employment	82.2%	82.5%	82.5%	82.7%	82.8%

* Estimated *(Source: Republic of Kenya: Economic Survey 2016)*

According to the United Nations' Economic Commission for Africa, Kenya has one of the highest levels of informal employment in Africa (Nationen, 2015). Of the 841,600 jobs generated by the economy in 2015, an estimated 85% – or 713,600 jobs – were created in the informal economy (Republic of Kenya, 2016). As the World Bank asserts, most of the new entrants into Kenya's labour market are finding informal jobs in trade and hospitality (Kiringai & Sanchez Puerta, 2016). Kenya's high level of informal employment is partly due to the slow pace of its transformation into an industrial-based economy; although the country has grown significantly in the past decade, its overall performance in the last 35 years has been relatively poor (International Institute for Labour Studies, 2013). This has had an adverse effect on labour market improvements and on formal job creation, thus contributing to the fast growth of the informal economy.

While I discuss Kenya's informal sector further in section 2.2.1 below, it is a prominent example of how official unemployment rates do not fully capture the

employment problems facing many developing countries. Of the vast majority of Kenyans who are employed in the informal sector, many are underemployed: "they earn, on average, less per month than the established international and national poverty lines and one fifth of what public workers earn in the formal sector (and less than half compared to private formal-sector workers)" (International Institute for Labour Studies, 2013). Since young people are especially vulnerable in terms of underemployment, it is important to consider job quality when examining youth employment problems in the Kenyan context. It is also important to recognize that youth joblessness and underemployment is a likely source of instability, as the inability to earn a decent living drives many young people into crime and drugs, and often into a state of boredom or restlessness (Kimenyi et al., 2016; Okirigiti & Raffey, 2015; Ministry of Youth Affairs, 2006). This was reflected in the post-election violence that erupted in Kenya in 2007-2008 which, although mobilized by political turmoil and shaped by urban criminal gangs, was mainly perpetrated by un(der)employed and poor urban youth (Balwanz, 2012).

2.1.3 Urban unemployment: Youth joblessness in Nairobi

Urban unemployment is particularly pervasive in Kenya (Kiringai & Sanchez Puerta, 2016). Persistent rural-urban migration continues to bring waves of youth into Kenya's urban centres, especially Nairobi, to search for work. More than a quarter of the total Kenyan population lives in urban areas (World Bank Data, 2016), and youth under 35 years make up a larger portion of the population in Kenya's cities (42.4%) compared to rural areas (31.8%) (Njonjo, 2013). Despite the existence of high urban unemployment and underemployment, young Kenyans are moving into cities at a rapid rate. Nairobi in particular has the highest proportion (49%) of youth in Kenya, and more than 60% of the

city's population is of working age (Njonjo, 2013). Since most youth are unable to find meaningful employment, young people under 35 years comprise a large majority of Nairobi's poor population (Thieme, 2010).

Most urban youth end up working in the informal sector. It is estimated that compared to 47% of older workers, only 28% of young urban workers have access to formal sector jobs (Kiringai & Sanchez Puerta, 2016). World Bank data shows that in Kenya's urban areas, three out of four jobs are in the informal sector, "mostly in jobs that generally offer low pay and irregular incomes" (Kiringai & Sanchez Puerta, 2016, 46). While the youngest urban workers are more likely to be in engaged in the trade sector, those between 25 and 34 years are more likely to be working in the public sector, in professional activities, or in manufacturing (Kiringai & Sanchez Puerta, 2016). World Bank data also suggests that compared to urban men, urban women are more likely to be self-employed (39% compared to 28% of total female/male employment) (Kiringai & Sanchez Puerta, 2016).

2.1.4 Gender constraints and unemployment among young women

Though Kenya has made strides to reduce gender gaps[3], there persists a strong patriarchal influence in Kenyan society that continues to affect the labour market experiences of women. The deeply embedded patriarchal system is recognized as part of Kenya's social fabric and contributes significantly to the country's ongoing gender inequities (Machira, 2013). Women continue to be seen primarily as caretakers and domestic workers, responsible for the children and the upkeep of the home. In order to fully understand the youth unemployment problem in Kenya, one must consider these gender

[3] For instance, in 2013, Kenya introduced a new law on matrimonial property that gives both spouses equal rights to administer joint property (World Bank Group, 2015)

biases and the different labour market challenges young men and young women face. As Mungai & Ogot (2012) argue, the existing cultural atmosphere in African countries largely determines the extent to which women are able to freely participate in entrepreneurship activities. I contend that both directly and indirectly, the persistent gender biases in Kenya continue to affect women's ability to find adequate employment.

Although women make up slightly more than 50% of the Kenyan population, they continue to have unequal access to opportunities and assets, and face discrimination in many areas of society (Gatimu, 2016). For instance, it is recognized that culturally imposed restrictions on women can limit their success in agriculture (Jideonwo, 2016). The United Nations reports that although more than 80% of Kenyan women are engaged in smallholder farming, only 1% of these women own land in their own right, and they have access to less than 10% of available credit and less than 1% of agriculture credit (UN Women, 2016). The country's political representation is also heavily skewed towards men: in the 2013 federal elections, only 16 women were elected to the national assembly, compared to 274 men (Migiro, 2013). As the United Nations Development Program states, "Women's empowerment is hindered by polygamy, early marriage and harmful cultural and traditional practices" (UN Women, 2016). Furthermore, illiteracy, ignorance of rights, and legal costs all limit women's ability access the Kenyan justice system (UN Women, 2016).

Traditional ideas about the roles of women in Kenya have also had an influence on their use of formal financial services, which can have a limiting effect on their ability to engage in meaningful self-employment (Kiraka et al., 2013). Although the advent of mobile money services has improved this situation, Kenyan women – especially the rural poor – continue to face different obstacles than men when it comes to interacting with the

formal financial system. For instance, transaction fees and the ability to take out loans are significant problems for many women, since they are more likely than men to be living in poverty. World Bank (2008) data shows that the incidence of poverty in Kenya is higher among female headed urban households (45%) compared to those headed by men (31%).

Unemployment is also higher among women than men in Kenya, and this is particularly the case in urban areas (Vuluku et al., 2013). According to the World Bank, more than 25% of all urban active women in Kenya are unemployed, and the unemployment rate is even higher for *young* women, standing at 40% (Kiringai & Sanchez Puerta, 2016). Furthermore, many of the unfavorable work conditions of the informal sector are intensified for women; in addition to irregular incomes and little access to social security, women "also face a number of serious health and safety risks, including dangerous working conditions, gendered violence and increased susceptibility to HIV/AIDS" (Chant & Pedwell, 2008, 1). Again, it is important to consider not only the unemployment rates, but also the impact of underemployment. In a gender gap analysis of unemployment and underemployment in Kenya, Vuluku et al. (2013) found that females with the same level of education as their male counterparts have a higher probability of facing time-related underemployment, meaning they are more likely to encounter irregular and insufficient work hours. Women also face different time constraints due to their unpaid care work, as they continue to bear disproportionate responsibility for household tasks and childcare.

2.1.5 Other challenges preventing youth from finding work

As I have discussed in this chapter, the high unemployment rate in Kenya is often attributed to the fast-growing pool of young job seekers combined with few available employment opportunities. However, aside from high competition, Kenyan youth face

other challenges that play a role in preventing them from finding decent work. One such challenge is gender biases, which I outlined in the previous section. Yet another major challenge is education and lack of appropriate skills. As the International Labour Organization argues, "the fact that only 1.5% of the unemployed youth have formal education beyond the secondary school level and over 92% have no vocational or professional skills training worsens the situation" (ILO, 2013, 7).

Education shortfalls and the mismatch between acquired skills and industry expectation is well documented in Kenya (Herrera & Merceron, 2013; Golub & Hayat, 2014; Ministry of Youth Affairs, 2006). Despite the Kenyan government's efforts to introduce post-basic education reforms and address youth skill deficiencies by providing "skills for jobs" (Balwanz, 2012), many of the unemployed youth in Kenya have no training aside from formal schooling (Kaane, 2014). The formal schooling system itself commonly fails to equip students with the basic education they need, and often times the skills that youth are able to acquire through the country's TVET (Technical and Vocational Education and Training) programs do not meet the requisite skills sought by industry (Kaane, 2014). Moreover, opportunities to acquire such additional 'skills for jobs' are still rare for informal wage-workers and the self-employed, which is where the majority of young Kenyans end up (Kiringai & Sanchez Puerta, 2016). This is not only a result of a weak education system and inadequate training infrastructure, but also a result of poverty, which limits youths' means of acquiring skills and training.

Other challenges that youth face which contribute to unemployment include poor access to information on available opportunities, unfavorable geographical distribution of jobs, and limited career guidance or mentorship (Kaane, 2014). Although young job

seekers cite limited financial resources and lack of relevant skills as major obstacles, corruption and red tape also play a role (Kaane, 2014). Corruption is systemic in Kenya and pervades all levels of the nation (Ngunjiri, 2010). In fact, Kenya ranks among the top 30 most corrupt countries in the world, according to Transparency International's Corruption Perceptions Index. For example, when it comes to the MSE sector, government agents often limit access to funds and permits to their own friends and family, making it difficult for anyone outside of their social circles, especially youth, to participate in certain types of entrepreneurship (Ngunjiri, 2010). Notably, the World Bank found that 33% of informal entrepreneurs in a 2013 study reported corruption as a severe obstacle and 60% admitted they were harassed by government officials in the last month (Safavian et al., 2016). Corruption not only creates barriers to entry for youth, but also "reduces the rewards for merit and reinforces the belief that the only roads to success are through luck or through corruption, and not through education" (Ngunjiri, 2010, 100). This was made evident in a survey carried out by the Aga Khan University, which found 50% of youth believe it does not matter how you make money, as long as you do not end up in jail (Awiti & Scott, 2016).

2.2 Entrepreneurship as a solution to youth unemployment

With few formal jobs to speak of, and with the informal sector not generating enough adequate jobs either, youth unemployment and underemployment rates in Kenya continue to rise. As a result, many young people in the Kenyan labour force are coming up with other alternatives to wage employment, venturing into entrepreneurship instead of being jobless. In fact, self-employment is increasingly seen as the most realistic option for Kenyan youth, who are transforming in vast numbers from job seekers into job creators. They are starting their own businesses in the micro- and small enterprise (MSE) sector,

playing a central role in furthering growth and innovation in Kenya (Kenya National Bureau of Statistics, 2016). In this section, I take a closer look at how entrepreneurship has been embraced by Kenyan youth, as well as the Kenyan government, as an avenue to expand employment creation.

2.2.1 The informal sector and 'jua kali' entrepreneurship

This study focuses on entrepreneurship in Kenya's informal economy, where the vast majority of young entrepreneurs operate. In this work, I use a definition of the informal economy that encompasses "those economic activities, units, enterprises and workers who engage in commercial activities outside of the realm of the formally established mechanisms for the conduct of such activities" (Hope, 2014, 67). This consists of all MSEs – including vending, financial, and service activities – that are unregistered, unregulated, and unprotected by the State. Notably, the vast majority of MSEs in Kenya are micro-enterprises, meaning they employ anywhere from zero to nine employees and have an annual sales turnover of less than 500,000 Kenyan shillings (~C$6,400). Micro-enterprises account for 81.1% of employment reported in the MSE sector (Kenya National Bureau of Statistics, 2016). Moreover, the majority of micro-enterprises – including retailers, *boda boda* drivers, hawkers, and other services providers – operate informally (Republic of Kenya, 2016). In fact, the World Bank asserts that 95% of businesses and entrepreneurs are found in the country's large and dynamic informal sector (Safavian et al., 2016).

The informal sector in Kenya has become synonymous with the MSE sector and *jua kali*, three concepts that are often used interchangeably in the literature and in some of Kenya's policy papers (Gitonga, 2008; Nielsen, 2012; Mitullah, 2003). *Jua kali*, which literally means 'fierce sun' in Kiswahili, is the name given to the millions of informal

workers – small-scale traders, craftspeople, and entrepreneurs – who operate outside of Kenya's regulatory system. The term was first used in the 1980s to describe the informal artisans, such as metalworkers and car mechanics, who worked under the beating equatorial sun day in and day out, often without any shelter (King, 1996b). Over time, the term gradually extended to refer to anyone in informal self-employment, whether operating in the open air, temporary shelters, or more permanent premises (Kato et al., 2015; King, 1996b). For the purposes of this study, '*jua kali* entrepreneurs' refers to self-employed people commonly found on city streets or in city markets in Kenya who earn a living by running informal micro-enterprises.

By the mid-1990s, *jua kali* enterprises were regarded by high-level policy makers "as 'manifestations' of underdevelopment, and not as a sector to which Kenya's future is inextricably linked" (ODA, 1994b: 18 in King, 1996). At that time, individuals working in the *jua kali* sector were those who lacked the requisite education and skills for formal sector employment. Today, however, the *jua kali* sector has been called the second backbone of the Kenyan economy (after agriculture), on account of the number of people it deals with (Kenya National Assembly Official Record, 2005). It is now more so the lack of formal job opportunities that is leading people into *jua kali* work. Thus, while the *jua kali* sector still absorbs those who lack the necessary training to enter the formal labour market, it is also made up of many skilled and educated individuals. In fact, *jua kali* businesses are a critical income strategy among young recent college and university graduates (Nielsen, 2012) and an important fallback option for most new labour market entrants (Kiringai & Sanchez Puerta, 2016). *Jua kali* enterprises are diverse in nature and include a wide range of undertakings (Kato et al., 2015). Common *jua kali* activities include: small-scale

retailing, such as selling fruit and vegetables or clothes and shoes; small manufacturing, production, construction and repair of goods; services, such as hairdressing or transportation; and farming or livestock (World Bank, 2006).

The ease of entry and exit into the *jua kali* sector makes it a feasible avenue for youth to pursue (Republic of Kenya, 2016). Since MSE operations cut across most sectors of the economy and use a low level or no technology, young Kenyans with varying levels of education and experience are able to find or create income-generating opportunities in *jua kali*. While some youth engage in the *jua kali* sector through self-employment, others are hired in *jua kali* wage work, working informally within existing enterprises. The World Bank suggests that non-wage work, including self-employment in *jua kali*, accounts for 44% of total urban employment in Kenya (Kiringai & Sanchez Puerta, 2016). It also indicates that half of urban wage earners are working in the informal sector, with fewer than one million urban workers (8.5% of the total urban population) engaged in formal employment (Kiringai & Sanchez Puerta, 2016).

As part of the informal economy, the *jua kali* sector comes hand-in-hand with many of the poor work conditions previously described. As Omolo (2010) notes, *jua kali* employment "is characterized by labour market insecurity such as low job tenure, absence or weak enforcement of core labour and employment regulations, weak framework for social protection and high levels of employment flexibility" (Omolo, 2010; 16). Although *jua kali* workers are extremely vulnerable to economic dislocation, illness or disability, and natural disasters, the literature indicates that in the near future, this sector will continue to be the most common employment option for Kenyan youth.

2.2.2 Fostering the growth of Kenya's young entrepreneurs

Entrepreneurship is identified in Kenya's long-term national development policy, Vision 2030, as one of the key drivers of the country's socio-economic transformation. While self-employment in the MSE sector is increasingly seen as an important part of Kenya's future, it was first identified as a partial solution to the country's youth unemployment problem in the 1980s (Nelson & Johnson, 1997; Republic of Kenya, 1992). This is when the government's attitude toward *jua kali* began to change and explicit policies aimed at promoting skills in *jua kali* enterprises started to gain ground.

The Kenyan Government's recognition of the importance of the MSE sector dates back to a 1986 Sessional Paper on economic management which emphasized the need for small enterprises to be nurtured to ensure future growth (Nelson & Johnson, 1997). Another important step took place in 1988, when entrepreneurship education was introduced in all levels of technical training institutions in Kenya to promote self-employment (Nafukho & Muyia, 2010). Throughout the 1990s, although there was a notable increase in the number of agencies dealing with matters affecting youth, youth unemployment worsened (Ministry of Home Affairs, Heritage and Sports, 2002). MSE development remained a key strategy for the Kenyan Government during this period. We also started to see the rise of Jua Kali Associations to help artisans liaise with donors and the government.

From 1999 – 2001, the Jua Kali Voucher Program targeted the promotion of knowledge and skills in *jua kali* enterprises. This program was carried out by World Bank under the authority of the Kenyan Government and set out to empower *jua kali* entrepreneurs with the capacity to buy skills and management training in the open market (Yoon, 1999). As part of this program, *jua kali* workers in Nairobi and Machakos were

given vouchers for training (which were 90% subsidized by the government) which they could cash in at their chosen training provider. Training was provided by *jua kali* master craftsmen from established enterprises (mostly metalwork and woodwork). The intent was to address the skills upgrading needs of the *jua kali* sector and to help build a private supply response among trainers to fill these needs (Adams, 2001). In total, more than 32,600 jua kali entrepreneurs (60% women) received training. While the impact of this program was very positive for those trained and led to significant growth of businesses involved, there were severe administrative problems with its implementation (Steel, 2002).

Throughout the 2000s, addressing youth concerns remained a priority in Kenya. The Ministry of State for Youth Affairs (MOYA) was established in 2005, and the following year the country's first comprehensive National Youth Policy was developed to provide a blueprint for youth development (Hope, 2012; Ministry of Youth Affairs, 2006). The National Youth Policy called on the government, civil society organizations and other development partners to provide training in entrepreneurial, leadership and management skills for the youth and to allocate funds specifically for entrepreneurs.

The Kenyan Government has since implemented many strategies to encourage youth to initiate their own small businesses. For instance, in 2006 the Youth Enterprise Development Fund was established to economically empower young Kenyans by providing loans to youth-owned enterprises. A similar program called the Women Enterprise Fund was established in 2007 to provide accessible and affordable credit specifically to women starting or expanding businesses. The Micro and Small Enterprise Act of 2012 has also had important implications for Kenya's MSE sector, providing for the promotion, development, and regulation of micro- and small enterprises. The MSEA Act

included the provision to establish the Micro and Small Enterprises Authority (MSEA), which has since been constituted and aims to promote the development of competitive and sustainable MSEs in Kenya (Institute of Economic Affairs, 2015b). The MSEA implements programs and activities with a view to create conducive working environments for MSEs and to enhance entrepreneurial and technical skills in the MSE sector. Most recently, an ambitious program called the Uwezo Fund was launched in 2013 to promote youth- and women-owned businesses and enterprises at the constituency level. The National Treasury, which is responsible for managing Kenya's national and county levels of government finances, allocated 6 billion Kenyan shillings (~C$78 million) in the 2013-2014 budget to the new fund in order to expand access to credit for women and youth.

2.2.3 Conclusion: Creating jobs through jua kali entrepreneurship

As I have shown in this chapter, youth unemployment is a pressing development challenge facing Kenya. The vast number of young workers entering the Kenyan labour market each year is not commensurate with the number of jobs being created. This not only wastes valuable human capital, but also presents a potential source of instability. The *jua kali* sector cushions Kenya's unemployment rates by absorbing a high proportion of youth who would otherwise be jobless. Instead of waiting around for formal wage work, they are turning to the informal sector where employment occurs outside of the regulatory framework and is often vulnerable in nature. Moreover, *jua kali* entrepreneurship has been recognized and championed by the Kenyan Government and other organizations as a major driver of employment and economic growth.

3 Chapter: Conceptual Framework and Literature Review

In the previous chapter, I showed how *jua kali* entrepreneurship has evolved in Kenya as a critical employment avenue for youth who would otherwise be without work. Although *jua kali* employment conditions are often harsh, the sector continues to play an important role in absorbing the massive surplus of youth entering the Kenyan labour market. The ease of entry and exit in the *jua kali* sector, including the low level of technology and capital required to get involved, makes it accessible to the majority of Kenyans. As such, *jua kali* provides opportunities for youth to become entrepreneurs, creating jobs through business both for themselves and for the people they may hire. However, relatively little is known about the growth process of enterprises created by young *jua kali* artisans. In particular, there exists limited information about their intentions for growth and their plans to employ other people.

As I will examine further in this chapter, it is often assumed that youth turn to *jua kali* as a last resort and consequently have no intentions of growing their firms. In fact, most *jua kali* entrepreneurs are believed to be subsistence-oriented, with little or no aspirations for growth. This is where I aim to contribute to the literature, by investigating the growth aspirations of *jua kali* youth entrepreneurs operating in Nairobi's manufacturing sector. Many researchers have focused on the inception of business ventures, and thus most explanatory models in the entrepreneurship literature seek to predict and explain individuals' propensity to start a firm and to exploit their human and social capital through entrepreneurial ventures. In this study, I focus instead on the entrepreneurial decision to aspire for firm growth. In particular, I look at entrepreneurial growth aspirations through

the lens of employment creation, recognizing the importance of Kenya's informal sector as a means of generating jobs for youth.

Below, I discuss the major determinants of small firm growth to show that, among other important factors, entrepreneurs' growth aspirations matter. As the research suggests, firm growth seldom occurs without the entrepreneur seeking it. I then examine the existing body of research on growth aspirations, discussing the many factors that may influence the entrepreneurial decision to aspire for firm growth. Notably, I introduce a model developed by Per Davidsson (1989a) on the determinants of small firm growth and growth motivation that is formative to my research. Building on his model, I present an overview of the leading literature on entrepreneurship in a developing-country context, discussing four dimensions of particular importance: start-up motives (necessity and opportunity entrepreneurship); informality and 'industrial clustering'; social capital and networking; and gender. Finally, I present the conceptual framework that informs this study, as well as the hypotheses that guide my research and analysis.

3.1 Growth aspirations: One of many determinants of small-firm growth

Jua kali enterprises are typically very small, with most falling into the micro-enterprise category. The leading literature on small-firm growth reveals it is influenced by a combination of three factors: (1) the opportunities available to the firm; (2) the intention for growth by the entrepreneur; and (3) the human, financial, and social resources that enable growth to be achieved (Cassar, 2006; Autio & Acs, 2010; Penrose, 1959; Davidsson, 1991). Thus, entrepreneurial growth aspirations – or the intention for growth – are an important part of the equation. To better situate growth aspirations in the broader literature

on small-firm growth, I present below a brief overview of some of the major determinants of actual enterprise growth identified in prior studies.

A review of the literature reveals that the determinants of small-firm growth typically fall into three levels of analysis: the macro level, the firm level, and the individual level. At the macro level, studies focus mainly on the influence of government policies, cultural norms, geography, taxation, property rights (and intellectual property rights), and social security (Hessels et al., 2008; McPherson, 1996; Perren, 1999; Autio & Acs, 2010. Firm level variables, on the other hand, often include firm size and age (Nichter & Goldmark, 2009; Kumar, 1985), the industry or sector (McPherson, 1996), formality and informality (Akoten et al., 2006; Nichter & Goldmark, 2009), and credit access (Sharu & Guyo, 2015; Nichter & Goldmark, 2009; Akoten et al., 2006).

At the individual level, both socio-demographic and psychological factors are studied. Entrepreneurs' human capital – including skills, education, and experience – is widely recognized as an important determinant of firm growth (McPherson, 1996; Sharu & Guyo, 2015; Nichter & Goldmark, 2009; Perren, 1999). Gender has also been found to have a strong influence on MSE growth, particularly in developing countries where women often face asymmetrical rights and obligations that constrain the performance of their firms (Nichter & Goldmark, 2009; Kevane & Wydick, 2001; Mead & Liedholm, 1998). Moreover, many studies recognize the influence of individuals' social networks, market access, and investing family or friends (Sharu & Guyo, 2015; Perren, 1999; Nichter & Goldmark, 2009; Abeka, 2011).

It is at the individual-level of analysis that growth aspirations come into play. Many studies focus on how the entrepreneur's psychological and behavioral attributes affect

small-firm growth, including personal motivation (Perren, 1999; McClelland, 1961; Wiklund & Shepherd, 2003), innovation (Schumpeter, 1934), risk-taking propensity (McCelland, 1961) and growth aspirations (Davidsson, 1989a; Kolvereid, 1992; Autio & Acs, 2010; Wiklund & Shepherd, 2003; Levie & Autio, 2013; Kolvereid & Bullvag, 1996). It is widely recognized in the literature that firm growth is to some extent willed by the entrepreneur, with many studies showing that the entrepreneur's desire and willingness to grow is an important driver of actual firm growth. As Cassar (2006) argues, many ventures do not achieve substantial growth simply because the entrepreneur does not intend their venture to achieve substantial growth.

Overall, the many determinants of small-firm growth highlighted in this section demonstrate the complexity of factors that can influence the actual growth of a firm. While these factors also exist at the macro level and firm level, it is at the individual level of analysis that entrepreneurial growth aspirations – the factor of interest in this study – can be conceptualized. Recognizing that a wide range of factors may influence actual growth outcomes, in this research I focus only on the entrepreneurs' intention to expand the business and the factors that influence this intention. As prior studies have shown, growth aspirations can have a significant impact on the achievement of actual firm growth. In the following section, I take a closer look at the determinants that can influence an entrepreneur's decision to aspire for firm growth.

3.2 Factors that influence entrepreneurial growth aspirations

Why do some entrepreneurs seek firm growth and expansion, while others choose to remain small? This question has been the research focus of an increasing number of empirical investigations. Similar to the literature on small-firm growth, the body of

research on entrepreneurial growth aspirations – also called growth intentions or growth motivation – reveals determinants at the macro level, firm level, and micro- or individual level of analysis. In this section, I present an overview of some of the main factors that can influence the entrepreneurs' aspirations for growth.

At the macro level, institutional factors can have a strong influence on growth aspirations, since they affect the entrepreneurial environment as well as the societal norms towards entrepreneurship. As Bruton et al. (2010) argue, the way in which entrepreneurship develops in a society is closely linked to that society's norms and governing policies; it may thus be stifled by conditions that create entry barriers and market imperfections. Indeed, cross-country studies have shown that intellectual property rights (Autio & Acs, 2010; Estrin et al., 2013); taxation (Autio & Acs, 2007) and social security arrangements (Hessels et al., 2008) can be significant determinants of entrepreneurial growth aspirations. Since the current research is a case study of Nairobi and does not include a cross-country analysis, capturing variation in many of these macro-level factors is not possible. Thus, examining the influence of such institutional factors on entrepreneurial growth aspirations is largely beyond the scope of this research.

However, prior studies show there are also many factors at the firm level that can influence entrepreneurial growth aspirations. These include the industry or sector of the firm (Kolvereid, 1992), the degree of formality or informality, the current age and size (Davidsson, 1991), the degree of competitive pressure, and the level of innovation. For instance, earlier studies have shown that among small firms, there is a widespread reluctance to grow (Cooper, 1982; Davidsson, 1989b; Kolvereid, 1992). Moreover, the literature also suggests that growth aspirations may be influenced by more micro-level

factors, including household income (Autio & Acs, 2007; Kolvereid, 1992), gender (Autio & Acs, 2007), motives (Kolvereid 1992; Amit et al. 2001; Morris et al., 2006), opportunity costs (Cassar, 2006), ability (Davisson, 1991; Cassar, 2006) and expected outcomes of growth (Davidsson, 1989b; Cliff, 1998; Wiklund & Shepherd, 2003).

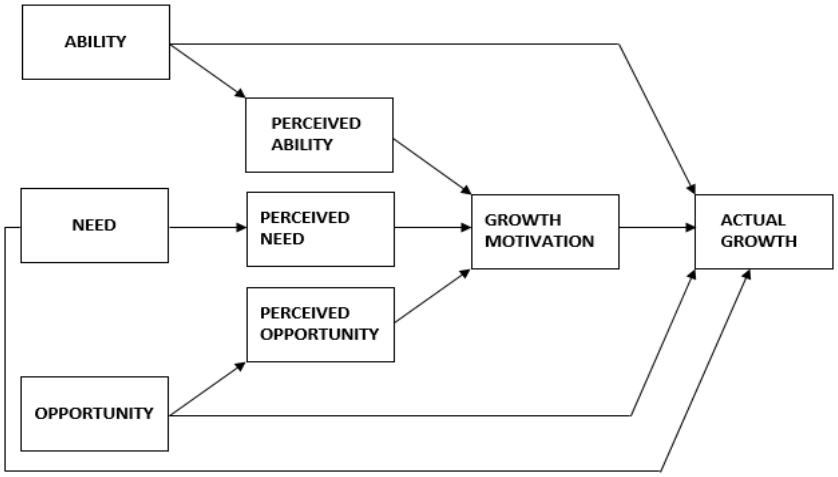
In this study, I consider the decision to aspire for growth a purposeful and rational decision made by the entrepreneur. Although I focus mostly on explanatory factors that exist at the individual- and firm levels where I am able to capture the most variation, I also recognize that these characteristics exist within the broader institutional context and may be influenced by more macro-level factors. For instance, many of the obstacles to growth that entrepreneurs face at the individual level may reflect constraints imposed by government policies or cultural norms. In the following section, I introduce a model on the determinants of small firm growth and growth motivation which brings together factors from all levels of analysis. As I discuss further below in section *3.2.2*, this model was formative to the conceptual framework I apply in this study.

3.2.1 Introducing Davidsson's model: Determinants of small firm growth

As the previous section outlined, a wide range of studies have investigated entrepreneurial growth aspirations and the different factors that may influence an entrepreneur's decision to aspire for growth. However, few of these have been conducted in a developing-country context. In the current work, I engage with an economic-psychological model of the determinants of small firm growth developed by Per Davidsson (1989a) which suggests that the individual's growth motivation – or growth aspirations – is a primary cause of actual firm growth (see Figure 1). This model is particularly relevant to the study of *jua kali* entrepreneurs because it was developed in recognition of the fact

that many small firm owner-managers do not "conform to the received view of the entrepreneur as a daring, innovative, and business-minded person" (2). As Davidsson suggests, many turn to self-employment because they see it as a favourable alternative to wage work (or in the case of *jua kali* entrepreneurs, as the only alternative), not because they see themselves exploiting a market opportunity. He argues that it is thus important to look beyond the act of setting up a new business at what happens afterwards – that is, whether or not the 'entrepreneur' decides to develop and expand the business further.

Figure 1: Davidsson's (1989) model of determinants of small firm growth



Source: Davidsson (1989)

Davidsson's (1989) model, which builds upon the work of Katona (1975), suggests that actual small firm growth is a function of the entrepreneurs' ability, need, opportunity, and growth motivation. Davidsson argues that while the list of low-level explanatory variables for firm growth may be endless, they can all be treated as aspects of these more general concepts, rather than as separate variables. For instance, he stresses that entrepreneurs' must have the *ability* or skills needed in order to take advantage of growth opportunities. He measures ability through variables like education and work experience, which appear often in the literature on entrepreneurship and small firm performance.

Need, on the other hand, refers to the need for further expansion, since growth or new products "may be objectively needed to ensure the survival of the firm and/or an acceptable standard of living for the owner-manager and his/her family" (Davisson, 1989a; 11). Davidsson suggests that variables such as business income, or firm size and age, can be viewed as aspects of the need for further expansion, the logic being that the older or larger the firm, the more likely it is already yielding profits that are high enough to meet the owner-manager's desired standard of living. Lastly, Davidsson argues that in addition to need, there must be some *opportunity* to act upon. In other words, there must be external conditions that can be gainfully exploited. With regards to opportunity, he lists specific aspects of external conditions, such as industry characteristics, geographic location, entry barriers, geographic market dispersion, and access to key resources.

A defining feature of Davidsson's model, however, is the emphasis placed on the owner-manager's growth motivation or aspirations. Davidsson argues that pursuing growth beyond business start-up is a deliberate decision made by the entrepreneur in an effort to meet personal needs or wants. This decision, or growth motivation, is in turn influenced by the entrepreneur's perceptions of their ability, need, and opportunity. Thus, growth motivation is driven by reality as perceived by the entrepreneur. As Davidsson (1989a) argues, "each individual will not perceive all relevant aspects of reality, nor will individuals perceive them in the same way" (68). Thus, two entrepreneurs with the same objective conditions – that is, the same objective ability, need and opportunity – may make very different decisions with regards to pursuing growth and expansion, since their perceptions are likely to differ. Davidsson shows that perceived ability, need and opportunity are only

partly determined by objective reality; other factors unique to each entrepreneur – such as their personal experiences or judgement – also influence perception factors.

To test the parameters of his model, Davidsson (1989) used survey data from more than 400 Swedish small firms. His analysis suggests that ability, need, and opportunity all have some unique effect on actual growth and growth motivation, and that the effect on actual growth is mediated by growth motivation. Moreover, he found that the subjective predictors of growth motivation (perceptions) were only to a modest degree explained by the objective factors. Overall, his main conclusion was that most small firms are not very growth oriented, and that this is by choice (in other words, it is not because pursuing growth is impossible). Notably, he found that need-related factors have the greatest influence on growth motivation.

Davidsson's model on small business growth has been widely accepted by growth scholars and has "raised the issue of managers' willingness to grow as an important predictor of subsequent growth" (Katz et al., 2015, xi). In a book on advances in entrepreneurship, firm emergence and growth, Katz et al. (2015) argue that Davidsson's work has "helped pave the way for a generation of future growth scholars" (xi). Reviewing Davidsson's (1989) model, Gray (1989) argues that "the model certainly has face validity in that it is both sufficiently simple to provide clear and testable predictions yet complex enough to deal with entrepreneurial variability" (594). However, he points out that it does have a few weak links. Namely, Gray takes issue with the indicators Davidsson uses to capture the entrepreneurs' ability: education level and previous work experience. Gray (1989) points out that it is well known "that founders of high-technology companies have relatively high levels of education whereas much lower educational levels prevail in the

repair services and retailing, which are industries with low barriers to entry" (595). Thus, Gray suggests the entrepreneurs' *ability* should be considered in the context of the industry in which they operate, since education levels may not be of particular importance in certain types of businesses. This is something I take into consideration in my study, since most *jua kali* entrepreneurs are involved in industries with low barriers to entry, and thus education may not have the expected effect on the ability to exploit opportunities. Gray (1989) also argues that while Davidsson assumes an indirect negative effect of profitability on growth aspirations, this is opposite of what most economic theory would suggest. With these cautions in mind, I turn now to present a discussion of how Davidsson's model can be adapted and applied to the Kenyan context in order to capture the determinants of growth aspirations among young *jua kali* entrepreneurs in Nairobi's manufacturing sector.

3.2.2 Building on Davidsson's model: Incorporating African realities

In this thesis, I attempt to apply Davidsson's model to a developing-country context to assess whether it is an effective tool to capture the determinants of growth aspirations in less developed economies. After reviewing the literature, which I present in the following section, I suggest this model is indeed a useful framework around which to conceptualize small firm growth and growth aspirations in Africa. In order to demonstrate this, I present an overview of the leading literature on entrepreneurship in developing countries and, more specifically, in sub-Saharan Africa. I reveal some of the complexities of entrepreneurship in developing countries and explain how the unique variables that affect growth aspirations in this context can be treated as aspects of the three broader concepts proposed by Davidsson – ability, need, and opportunity.

In particular, in the following section I examine four dimensions that are highly relevant in developing countries but that are not explicitly included in the model: start-up motives (necessity and opportunity entrepreneurship); informality and 'industrial clustering'; social capital and networking; and gender. Ultimately, I argue that by applying a developing-country lens, Davidsson's framework can be re-conceptualized to reflect developing country realities, capturing the wide range of variables that may influence the employment growth aspirations of informal entrepreneurs in Kenya.

3.3 Entrepreneurship in a developing-country context

Many meanings and definitions of entrepreneurship can be found in the literature, reflecting the wide range of research fields, disciplines, and paradigms through which entrepreneurial phenomena can be studied. Among these, two distinct views of entrepreneurship stand out: the view that entrepreneurs are business owners or people who are self-employed, and the view that entrepreneurs are innovators (Schumpeter, 1934; Kirzner, 1973). In development literature, common definitions of entrepreneurship include any type of self-employment (Acs, 2006). Since this study looks at entrepreneurship in a developing-country context, I adopt a broader definition of entrepreneurship used by the Global Entrepreneurship Monitor, which includes "any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business" (GEM, 2016). The term "entrepreneur" is thus used to describe all entrepreneurial actors, including anyone engaged in informal self-employment. This captures all individuals who own and operate *jua kali* businesses in Nairobi, including those who employ only the owner.

3.3.1 Start-up motives and necessity entrepreneurship

Many researchers have found evidence to support the link between entrepreneurship and economic growth. Entrepreneurs create new businesses, which in turn create jobs and stimulate the economy (Acs, 2006). However, not all entrepreneurship leads to economic growth. In developing countries, high rates of entrepreneurship are instead associated with low economic development, since they typically reflect a lack of formal employment opportunities and other wide-ranging economic issues. In the absence of formal options for work, many people in developing countries are forced into self-employment. In fact, it is widely recognized in development research that many entrepreneurs start businesses simply because they have no better options for work (Stephan et al., 2015; Acs, 2006). This group is often called 'necessity entrepreneurs', a term coined to describe those who turn to self-employment as a last resort. These so-called necessity entrepreneurs may range from illiterate street vendors to educated hopefuls who lack access to formal employment (Brewer & Gibson, 2014; Hessels et al., 2008).

Necessity motives, also called push motives, are predominant in developing countries where lack of jobs is an ongoing challenge (Hessels et al., 2008; Amin, 2010; Williams & Youssef, 2014; Herrington & Kelley, 2012). Standing in contrast to the necessity-driven group are those entrepreneurs who report mostly pull motives, such as autonomy, income and wealth, recognition and status, and challenge (Hessels et al., 2008). Unlike those pushed into entrepreneurship, "opportunity entrepreneurs" pursue self-employment by choice in order to take advantage of a genuine perceived business opportunity (Stephan et al., 2015). However, as I will discuss in further detail below, there is a growing body of

research suggesting this dichotomous approach oversimplifies entrepreneurial motivation and that it may be better conceived as a continuum.

The Global Entrepreneurship Monitor (GEM) is one of several large population-representative surveys that differentiate between necessity and opportunity entrepreneurship (Stephan et al., 2015). GEM data suggests that a significant fraction of entrepreneurs worldwide are driven by necessity, especially in economies characterized by low-skilled labour (Singer et al., 2014). This distinction is often invoked to explain why many less developed countries have higher entrepreneurship rates than more developed countries (Langevang et al., 2012). Compared to the necessity-driven group, opportunity entrepreneurs are believed to have a greater impact on economic development and growth (Acs & Varga, 2005; Adom & Williams, 2012). Some research has shown that opportunity entrepreneurs are more likely to grow their business and employ others, while necessity-driven entrepreneurs tend to run smaller firms and have lower growth expectations (Poschke, 2013; Block & Sandner, 2009). However, the empirical evidence for this is limited, and conversely, other research has found high aspirations to grow among survivalist or necessity-driven entrepreneurs (Choto et al., 2014).

It is commonly assumed that entrepreneurs operating in the informal sector are driven by necessity, given the precarious conditions of informal work (Williams & Youssef, 2014). However, several studies suggest informal entrepreneurs are not universally necessity-driven and that opportunity motives are also prevalent among this group (Achua & Lussier, 2014; Adom & Williams, 2012; Williams & Youssef, 2014). The Global Entrepreneurship Monitor has argued that too many entrepreneurs in sub-Saharan Africa are driven by necessity rather than opportunity (Herrington & Kelley, 2012), reflecting the

notion that opportunity-driven entrepreneurs are viewed as more desirable for development. It has become increasingly accepted, however, that the opportunity versus necessity approach fails to capture the complex motivations and aspirations of entrepreneurs. A review of recent research evidence shows that a wealth of multi-dimensional typologies of entrepreneurial motivation exists beyond the opportunity-necessity dichotomy (Stephan et al., 2015). Many studies suggest that entrepreneurs' motives are not only a mixture of both necessity and opportunity, but that they may also shift over time from more necessity-driven to more opportunity-oriented (Adom & Williams, 2012; Langevang et al., 2012, Cassar, 2006; Achua & Lussier, 2014).

As discussed in the previous section, Davidsson (1989a) suggests that some small scale entrepreneurs may choose not to exploit opportunities unless the continued development of their firm is absolutely necessary. In fact, he finds that most Norwegian small firm owner-managers are satisfied with the status quo and perceive growth as "no longer serving, or even threatening, important personal goals" (211). Thus, he finds that continued entrepreneurship – that is, the motivation to pursue growth beyond the start-up phase – is "likely to come about among those for whom this is the preferred or the 'only feasible' alternative" (212). I thus argue that there are very clear linkages between Davidsson's model and the notion of necessity entrepreneurs in developing countries. In particular, his model seems to suggest that those entrepreneurs with a greater *need* for further expansion – such as those currently not earning enough to survive and take care of their families – will be more likely to have higher aspirations for growth. Within the broader concept of *need*, Davidsson (1989a) considers determinants like firm age/maturity and firm size. He stresses, however, that ideally *need* should be assessed in a more direct way, by generating

"thorough insight into the financial position of the owner-manager as well as that of the firm" (Davidsson, 1991, 408).

I argue that in a developing country context, it is important to understand the entrepreneur's financial situation and their motive for starting a business, as this likely influences their *need* for further growth and thus, their growth aspirations. It is important to note that in developing countries, many factors may affect an individual's financial situation – most notably their family dynamics. To generate truly "thorough insight" into the owner-managers' financial situation, it is thus important to look beyond income levels at other relevant factors such as their marital status, the size of their family, their number of children or dependents, as well as the control they have over the money they earn (especially for women). For instance, as I discuss further below, strong family ties often restrict the flexibility of women entrepreneurs from pursuing growth opportunities.

3.3.2 Informality, industrial clusters, and growth aspirations

While informality is not unique to less developed countries, as it exists in both developed and developing countries alike, the magnitude and importance of informal labour markets is a defining feature of developing economies. As I discussed in Chapter 2, an estimated 80% of all firms in developing countries are informal enterprises (Stein et al., 2013). It is therefore important to understand what operating in the informal sector means for those engaged in self-employment and how it may affect their growth aspirations. In this section, I highlight some considerations that must be taken into account when examining the determinants of growth aspirations of entrepreneurs in informal markets.

Informal entrepreneurs operate primarily outside of regulatory frameworks and thus do not experience the same legal protections as those operating formally: "they create their

own systems to do things, such as resolve disputes or enforce contracts or get ways to circumvent the rules and laws" (Ngunjiri, 2010, 94). On one hand, this may imply lower taxes and regulatory barriers for informal sector actors, meaning they benefit from more freedom and flexibility. As Khavul et al. (2009) note, for instance, informality reduces the cost of experimenting with unrelated businesses. On the other hand, however, while operating informally enables firms to circumvent government regulations and taxation, research shows this can create disincentives to expand, since too much growth may put them at risk of becoming more visible (Snodgrass & Biggs, 1996; Winter, 1995; Nichter & Goldmark, 2009). As Woodruff (2013) rationalizes, "Focusing on avoiding taxes in the informal sector can often distract firms' attention away from important growth opportunities" (1).

According to the World Bank's 2013 Informal Enterprise Survey (IFS) in Kenya, most informal enterprises remain small, employing only the owner: "three-quarters of the firms (included in the survey) did not hire additional employees or acquire machinery or space over the past three years" (Safavian et al., 2016, 42). The same survey found that the two main reasons informal firms in Kenya remain informal are registration procedures and taxes. Further to limiting the size and growth of firms, informality can also rule out close relations with formal businesses. For instance, contracts with larger buyers may require legal documentation that many MSEs lack, making them off-limits for most informal businesses (Nichter & Goldmark, 2009). Operating informally can thus limit entrepreneurs from participating in supply chains, since large corporations will typically require that all smaller firms involved are registered businesses (Stein et al., 2013).

Accessing financial and legal systems is also a challenge for informal enterprises

(Nichter & Goldmark, 2009). The immense financing constraints that continue to affect many businesses in developing countries are magnified for informal entrepreneurs who often rely instead on informal finance, which tends to be associated with lower firm growth (Stein et al., 2013). Prior studies suggest that entrepreneurs engaged in new and small ventures face more than supply-side financing constraints: they may also be affected by lack of knowledge of finance alternatives (Seghers et al., 2012). In Kenya, the majority of people now have access to formal financial services; however, small-scale entrepreneurs may have limited access to the information and skills needed in order to fully understand and access different financing options. In developing countries, most informal MSEs rely on microfinance and informal finance, which is usually based on the traditional credit culture and personal relationships. This reinforces the particularly important role of social networks among informal entrepreneurs, which will be discussed further in next section of this chapter (see section 3.3.3).

Given the widespread effects of informality on entrepreneurship outlined above, I suggest that informality can be conceptualized as an external condition that primarily influences o*pportunity* for growth available to *jua kali* entrepreneurs. In Davidsson's model, the broader concept of opportunity is used to capture variables concerning external factors such as industry structure and dynamics, geographic location, market size and growth, access to capital and labour, and other entry barriers. I argue that it is primarily through these indicators of *opportunity* that the effects of informality materialize. For instance, informality is strongly linked with market size and growth, geographic location and dispersion, as well as access to key resources, which are all indicators of o*pportunity*. Because informality can impact so many other factors, I suggest that informality should be

viewed as an overarching condition that influences the other indicators captured in Davidsson's model, particularly those concerning *opportunity*.

A useful example of how informality relates to *opportunity* for growth is through the geographic dispersion and location of informal firms. A notable feature in many developing countries is the formation of industrial clusters, defined as geographic concentrations of micro- and small businesses in the same or related industries (Yoshino, 2011). Particularly common in major cities in Africa, industrial clusters are natural agglomerations of MSEs that "appear to provide pockets of vitality in Africa's private sector" (Yoshino, 2011, 5). While some industrial clusters are deliberately 'constructed' through government efforts, most clusters in developing countries emerge spontaneously. Research in Cameroon, Ghana, Kenya, Mauritius, and Rwanda has shown that cluster-based MSEs perform better than similar enterprises outside the clusters (Yoshino, 2011).

In Nairobi, there exist both informal industrial clusters, which are ubiquitous and sector specific, as well as a few formal industrial clusters, including the Export Processing Zones (EPZ) and the Industrial Area (Sonobe et al., 2011). Since most MSEs in Kenya operate informally however, industrial clusters in Nairobi are largely an informal phenomenon. While some clusters emerge spontaneously, others have developed in response to pressures from city authorities forcing *jua kali* entrepreneurs to locate in certain areas (Kinyanjui, 2006). The development of these clusters has been studied as a promising coping mechanism that allows MSEs to overcome size constraints and improve access to new markets. Of particular importance to this study are Nairobi's informal manufacturing clusters, the majority of which produce products sold only in local or national markets. *Jua kali* manufacturing encompasses a wide range of sub-sectors, including metalwork,

woodwork or carpentry, garments, and handicrafts. While many clusters make products for low income consumers, others make goods that are more appealing to middle- and upper-income markets. Innovation within these clusters most often occurs through the adaptation of existing products to available tools, materials and markets (Bull et al., 2014).

While industrial clusters can facilitate growth for small firms by connecting them with customers and distant markets, space constraints and high levels of competition can also impede growth among cluster-based enterprises. I contend that operating within clusters compared to working in isolation affects the *opportunity* for growth available to entrepreneurs. This aligns with Davidsson's model, which identifies geographic location and dispersion, as well as industry fragmentation, as *opportunity*-related variables. I therefore present informal industrial clusters as an example of one of the many of the factors that can be captured using Davidsson's (1989) framework, again showing that when a developing-country lens is applied to this model, the variables likely to influence entrepreneurial growth aspirations in Africa are clearly represented.

Beyond geography, industrial clusters are often associated with some type of common social identity or network, which "provides the basis for interpersonal relations, for notions of trust and reciprocity, and for social sanctions that set boundaries on accepted competitive behaviour" (Dijk & Rabellotti, 2005; 111). The centrality of social networking and personal relationships in developing-country entrepreneurship is examined below.

3.3.3 Social capital, networks and entrepreneurship

The literature shows that social capital – which can be defined as "an instantiated informal norm that promotes cooperation between two or more individuals" (Fukuyama, 2000, 1) – plays an inherent role in venture growth (Keeley, 2007; Ostgaard & Birley,

1996; Zhao & Aram, 1995). This is especially the case in developing countries, where access to key resources is unequal and often limited. The term 'social capital' is often associated with other aspects of the social context, including trust, social networks, family ties, civil society, and value systems (Anderson & Jack, 2002). In this section, I summarize some of the key literature on social capital in business development, both broadly and within the African context. I highlight the critical role social networking plays among entrepreneurs in developing countries, and how this can be treated as an important aspect of the broader concept of *opportunity*. I suggest that an entrepreneur's social networks likely affect their *opportunity* for growth, thus representing an important indicator of growth aspirations.

It is widely recognized that social relations – ties to family, friends, customers, suppliers, employees, and moneylenders – provide entrepreneurs with access to key resources that they would otherwise be lacking. Such resources can take several forms, including information, motivation, labour, or material resources such as finance. An individual's social capital is said to vary depending on the number of their social relations or their network size, the strength of their social ties, the variety or diversity of their networks, as well as their network dynamics. While some previous work has focused on the role of social relations in accessing financial capital (Zimmer & Aldrich, 1987; Bates, 1997), most research has focused on the benefits social networks provide when it comes to accessing information and advice (Cooper et al., 1995; Jenssen & Koenig, 2002). For instance, Jenssen & Koenig (2002) show that weak social ties, such as those with acquaintances, are more likely to provide entrepreneurs with access to information, while stronger ties with family and friends provide access to motivation. It has also been shown

that social relations are used to scope out the availability of business sites (Zimmer & Aldrich, 1987).

In many African countries, where informal economies are rampant, networking is of particular importance for entrepreneurship (McDade & Spring, 2005). Particularly in East Africa, "micro-entrepreneurs have few immediate resources and have to draw on the social capital embedded more broadly within their social networks" (Khavul et al., 2009; 1222). Previous work shows that networks give African entrepreneurs a means of reducing risks and transaction costs, allowing them to improve access to business knowledge, ideas, and capital (Kristiansen, 2004). In a paper on entrepreneurship in Africa, Acs et al. (2013) stress that entrepreneurship "is about creating environments where people are able to perceive entrepreneurial opportunities…and be empowered by the environment to act upon their visions" (6). In Africa however, as in other developing regions, opportunities to develop profitable enterprises are not equal for everyone (Kristiansen, 2004), since many countries remain highly differentiated along racial/ethnic lines, as well as religion, class, and gender.

In Kenya specifically, much of the research around social networks and entrepreneurship focuses on the differences between the Asian diaspora and the native African population (Kristiansen & Ryen, 2002; Jackson et al., 2008; Dijk & Rabellotti, 2005). For instance, some research shows clear indications that Asian- and European-owned businesses are more successful than those owned by native Africans (Kiggundu, 2002; Kristiansen, 2004). However, as Kiggundu (2002) stresses, these differences along race and ethnicity lines likely represent other underlying factors that are more closely linked to entrepreneurial success, such as formal education and social networks. Some research has also been carried out on the entrepreneurial traits of different ethnic groups –

namely, Luo, Kikuyu, Kalenjin and Kamba (Mungai & Ogot, 2012) – as well as different rate of gender involvement in entrepreneurship among these groups (Mungai & Ogot, 2012). The literature is clear that all entrepreneurs in Kenya – whether a successful Asian business owner or a typical mini-manufacturer – use family and professional networks to some extent (Dijk & Rabellotti, 2005). Since extended families form the root of kinship ties in the African context, an entrepreneur's position within the family network can have an important impact on their social networking (Khavul et al., 2009).

The Global Entrepreneurship Monitor (GEM) includes a network module to capture information about entrepreneurs' social relations, recognizing that "networking depends on the culture of the country such as the roles of family versus professionals, on attributes of the entrepreneur such as gender, age and education, and on characteristics of the business such as its phase and size" (GEM, 2012). GEM acknowledges that networks can affect important outcomes including innovation and growth-expectations. Other studies have examined the social determinants of growth aspirations (Efendic et al. 2014; Kwon & Arenius, 2010; Estrin et al., 2013; Liao & Welsch, 2003), though this relationship remains under-investigated. Prior research suggests that social capital affects both entrepreneurial growth aspirations (Liao & Welsch, 2003; Langevang et al., 2012; Tominc & Robernik, 2007) as well as start-up motives (Urban, 2011; Giacomin et al., 2011; Hechavarria & Reynolds, 2009). Through enlarging their social networks, entrepreneurs gain access to critical information and resources from knowledgeable others that can influence plans for future growth. By positioning themselves within a social network, they shorten the path to the knowledge and resources they need (Greve & Salaff, 2003). Research has shown that cognitive dimensions of social capital – that is, shared cultural norms in society that affect

attitudes towards entrepreneurship – also shape growth aspirations (Tominc & Robernik, 2007; Liao & Welsh, 2003). Cultural support for entrepreneurs has been studied as an important determinant of growth aspirations, as it can increase accessibility of resources and the ability to conduct an enterprise (Liao & Welsh, 2003).

On the other hand, there can also be negative social and cultural influences that eradicate entrepreneurs' high growth aspirations (Efendic et al., 2014). For instance, cultures in East African countries like Kenya are fragmented when it comes to ethnicity, religion, and class, and within the many different subcultures there exist certain values, beliefs and norms that can affect entrepreneurial attitudes. As Mungai & Ogot (2012) point out, "in the majority of sub-Saharan countries, ethnic cultures play a more dominant role in moulding the values and perceptions of its citizens than national cultures" (175). As much as social network ties can create opportunities for entrepreneurs, they may also create constraints "through the implicit and open-ended obligations that they create" (Khavul et al., 2009: 1233). I therefore suggest that when it comes to *opportunity*, the role of social capital must be considered when examining the growth aspirations of entrepreneurs in developing countries. Moreover, since female entrepreneurs are often the ones most restricted by African cultural norms and expectations (Kiriti & Tisdell, 2005), it is critical to recognize that the impact of social capital may be very different for men than for women (Mungai & Ogot, 2012). Further considerations with regards to gender disparities in entrepreneurship and growth aspirations are discussed in the following section.

3.3.4 Gender, entrepreneurship, and growth aspirations

A consistent finding in entrepreneurship research is that gender matters. Worldwide, more men than women own and manage businesses, and those owned by women tend to

be smaller and less profitable (Naudé & Minniti, 2011). Gender differences in entrepreneurial activity have been attributed to a wide range of factors, including institutional contexts (Thébaud, 2015), differences in personality traits (Obschonka et al., 2014), differences in human and social capital (Greene, 2000), and differences in competitiveness and risk tolerance (Bonte & Jarosch, 2011).

Around the world, women entrepreneurs are heavily over-represented in the smallest and informal enterprises (ILO, 2015). Within self-employment, they are more likely than men to be own-account workers, meaning they are less likely to be employers (ILO, 2014). Since women in developing countries face greater barriers to entry in formal labour markets, the rate of female entrepreneurship is higher there than in developed countries (Naudé & Minniti, 2011). This rate is the highest in Africa compared to any other region, with women owning approximately half of non-farm businesses (Hallward-Driemeier, 2011). However, their entrepreneurial development is impeded by a wide range of constraints including the legal and regulatory systems and limited access to key resources, such as finance and land (Kiraka et al., 2013). They often face unfavourable opportunities and incentives when it comes to doing business, and must deal with culturally sanctioned biases that limit their participation in entrepreneurial activities (Kiriti & Tisdell, 2005; Mungai & Ogot, 2012). Moreover, women are more involved in the care economy, with greater household and childrearing responsibilities. As Naudé and Minniti (2011) assert:

> *Women have been assigned a special role not only because they stand to benefit from entrepreneurship, being the gender that is poorer and suffers from more discrimination, but also because they are seen as a critical driver of entrepreneurship in light of their unique role in the household and the rise in female-headed households across the developing world.*

Differences in the experiences of men and women must be carefully considered when studying the growth aspirations of entrepreneurs, particularly in a developing-country context and in an informal setting. I propose that gender is an overarching issue that affects every dimension included in Davidsson's model – ability, need, and opportunity, as well as perceptions. For instance, the *ability* of young men and women may differ for a wide range of reasons, including persistent gender disparities in education. As Kolvereid (1992) explains, "since men and women often do not possess the same skills and do not have the same education, one may hypothesize that there will be differences between men and women with regard to their growth aspirations" (211). In other words, growth aspirations may differ between men and women not because the key skills needed for growth are gender based, but because structural and cultural barriers and biases limit the skills, education, and opportunities available to women. This is especially true in Africa, where most cultures are of masculine nature (Mungai & Ogot, 2012) and women are far more likely to lack business skills and entrepreneurship training (Kiraka et al., 2013).

Applying a gendered lens is also crucial when attempting to generate insight into the *opportunity* for growth available to entrepreneurs. In an institutional setting like Africa, the experiences of men and women differ when it comes to many of the variables captured in the broader concept of *opportunity*, such as entry barriers, social relations, and even geographic dispersion. For instance, in Kenya women are almost twice as likely to be operating their businesses from the home, while men are twice as likely to locate in commercial districts or trading centres (McCormick, 2001). Khavul et al. (2009) draw attention to the different family roles of men and women and how this impacts *opportunity*,

showing that "strong family ties restrict the flexibility of female entrepreneurs in pursuing growth opportunities or experimenting with unrelated businesses" (1233).

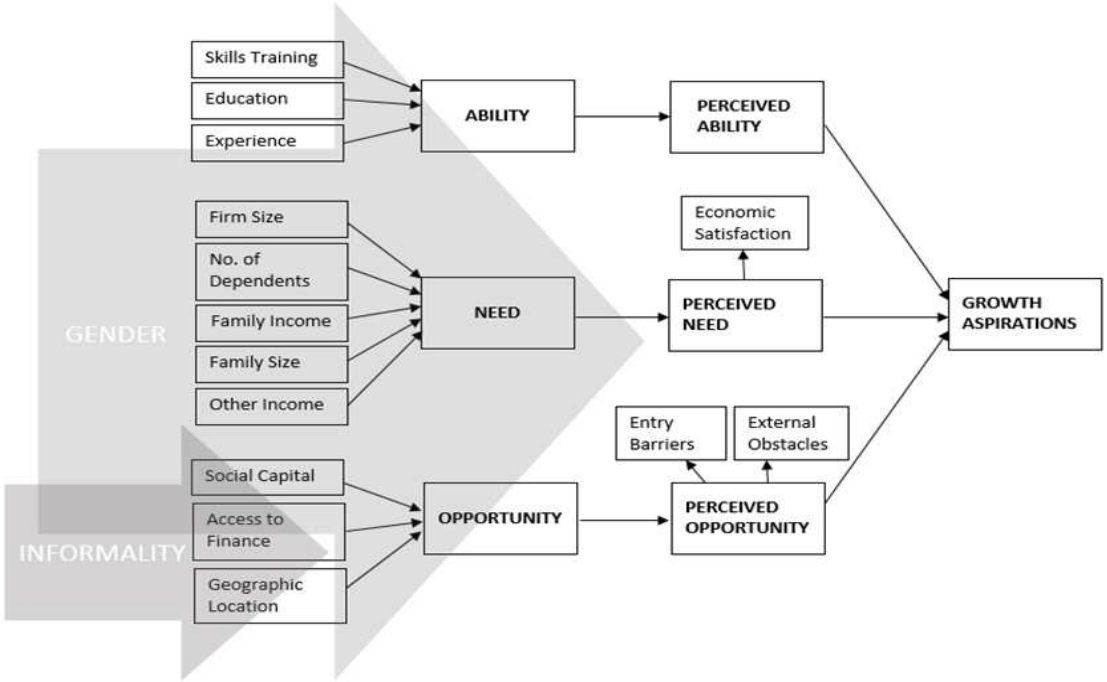
Women in Development (WID) research often advocates a human economy approach which recognizes that many women-owned micro-enterprises, even more so than others, are focused on family subsistence *needs* rather than profit-making and growth (Dignard & Havet, 1995). Women micro-entrepreneurs may thus limit the scope of their businesses, "preferring self-employment to growth and often not using their profits for business purposes" (Dignard & Havet, 1995, 33). It is therefore important to recognize that the *need* of female entrepreneurs may differ from that of men, especially given the unique role of women in the household.

3.4 Conceptual framework and hypotheses

In order to effectively examine the variables included in my study, I re-conceptualized Davidsson's (1989) model to reflect the determinants of growth aspirations most relevant in developing countries, as discussed in this chapter. I represent these variables diagrammatically below (see Figure 2) in order to guide my study. With this conceptual framework in hand, and by testing the four hypotheses outlined below, I seek to answer three research questions:

1. What are the growth aspirations of informal youth entrepreneurs in Nairobi?
2. What explains variation in growth aspirations among *jua kali* entrepreneurs?
3. To what extent are entrepreneurial motives associated with growth aspirations?

Figure 2: Conceptual framework



Source: Author (2016), reconceptualization of Davidsson's (1989) model

Entrepreneurial motives. *Jua kali* entrepreneurs, by definition, operate in Kenya's informal sector, and it is widely believed that informal entrepreneurs are predominantly necessity-driven (Williams & Youssef, 2014). However, almost all of our knowledge on informal firms comes from studies of productivity and firm dynamics, rather than individual motives. Given the lack of formal employment opportunities in Kenya, it is assumed that most *jua kali* entrepreneurs are pushed into self-employment out of necessity, because they have no other income-generating options.

It is commonly believed that those pushed into entrepreneurship operate at the subsistence level and do not aspire to grow their business (Poschke, 2013; Block & Sandner, 2009). However, this is an assumption rather than an empirical finding. Further research is needed in order to generate more concrete evidence on the growth aspirations of *jua kali* youth entrepreneurs, and to what extent push or pull motives matter. By first

identifying their reasons for engaging in self-employment, I seek to generate important insights about the extent to which entrepreneurial motives help explain variation in growth aspirations. This allows me to formulate my first hypothesis:

> *Hypothesis 1: Entrepreneurs driven by necessity or the basic need for survival have low or no growth aspirations*

Ability. Davidsson (1989a) found that both objective and perception-based measures of *ability*, n*eed*, and o*pportunity* explain a substantial share of variation in growth motivation. Applying his model to a developing-country context, I contend that these three broader concepts capture the leading variables that may influence growth aspirations among young *jua kali* entrepreneurs in Nairobi. As Davidsson argues, growth motivation is enhanced if the entrepreneur feels he or she has the necessary *ability* to exploit opportunities for growth.

In the case of young informal entrepreneurs in Nairobi, growth-relevant ability would be determined by variables like level of education, experience, and skills training among other factors, which may influence their ability to recognize and make use of certain opportunities. For instance, some entrepreneurs may be better equipped than others to leverage social capital, meaning they have a greater ability to draw on social networks and dependency relations. This, in turn, may play a role in shaping their growth aspirations. Furthermore, Sharu & Guyo (2013) found that in Nairobi, entrepreneurship skills influence the growth of youth-owned SMEs, helping young people by widening their thinking capacity and giving them a better understanding of market trends and customers. Evidence generated by the World Bank also found that more educated informal firm owners in Kenya have more productive firms and are less financially constrained (Safavian et al., 2016). While these studies do not look at the effect of ability on growth aspirations, explicitly, they help to inform my second hypothesis:

Hypothesis 2: Greater entrepreneurial ability is associated with higher growth aspirations

Need. When it comes to *need*, Davidsson draws on studies that focus on firm age and size, economic satisfaction and 'need for achievement'. In a developing-country context, I argue that *need* is likely to be a very important driver of growth aspirations, since economic satisfaction is likely to be low. I expect that the need for survival and the need to support a family are most relevant among informal entrepreneurs in Nairobi. If the business income is not enough to support their daily upkeep, they may have a greater *need* for growth and hence, greater growth aspirations. In other words, if perceived *need* is a significant determinant of growth aspirations as Davidsson suggests, then it is likely that informal entrepreneurs struggling to make ends meet will in fact have higher aspirations for firm growth. I examine this relationship by incorporating variables that may represent *need* in a developing-country context, including: the number of dependents, the size of the business, and the level of economic satisfaction. Although I recognize that in sub-Saharan Africa, having more children or dependents can lead to more labour and thus more productivity, it may also increase the 'need' for growth of entrepreneurs who must provide for larger families. I attempt to disentangle this relationship, hypothesizing that those entrepreneurs with greater *need* for growth will have higher growth aspirations:

Hypothesis 3: Greater need for firm growth is associated with higher growth aspirations

Opportunity. *Opportunity* for firm growth can encompass many factors. In Davidsson's (1989a) model, determinants that fall within this broader concept include external obstacles, entry barriers, and geographic location. I propose that many factors concerning *opportunity* in developing countries can also be captured, including: access to financial

capital; social and kinship relations; and market access. While I recognize the number of specific variables influencing *opportunity* may be endless, these are all measurable factors that may shape entrepreneurs' *opportunity* for growth in developing countries. Although there are also country-level moderating effects on *opportunity*, including national taxation and fiscal conditions (Autio & Acs, 2007), incorporating these is beyond the scope of my study. By investigating growth-relevant *opportunity,* I attempt to trace the relationship between these factors and entrepreneurial growth aspirations. In doing so, I am able to test the following hypothesis:

> *Hypothesis 4: Greater opportunity for firm growth is associated with higher growth aspirations*

By testing these three hypotheses (H_2, H_3, and H_4), I attempt to build on Davidsson's (1989a) model to develop a framework that captures the determinants of growth aspirations in a developing-country context. Through this process, I aim to reveal the main factors that explain variation in levels of growth aspirations among young *jua kali* entrepreneurs in Nairobi.

4 Chapter: Methodology

In this chapter, I describe the research methods that I used to conduct the study. I explain how I collected and analyzed the data and information that I needed to answer the research questions and address the objectives. The specific objectives of this study were: to generate insight into the growth aspirations of informal sector youth entrepreneurs and the reasons some are more growth-oriented than others; to advance knowledge of the determinants of entrepreneurial growth aspirations among youth in a developing-country context; and to test the widely held assumption that necessity entrepreneurs have little or no growth aspirations. It is my hope that this research will enrich discussions and ongoing policy debates around the employment creation potential of informal youth entrepreneurship in Kenya.

4.1 Statement of the research problem

As I have described in previous chapters, entrepreneurship presents a potential solution to the youth unemployment crisis in Kenya, not only by creating employment for the entrepreneurs, but also for the workers they hire. It is widely believed that in developing countries, the majority of entrepreneurs operating informally engage in entrepreneurship out of necessity, starting small informal businesses as a survival strategy in the absence of better options (Williams & Youssef, 2014). These so-called necessity entrepreneurs are believed to have little or no growth aspirations, contributing very minimally – if at all – to employment creation. However, this is an assumption rather than an empirical finding. Although research has shown that growth aspirations are an important determinant of actual firm growth, little is actually known about the intentions of youth entrepreneurs

operating in Nairobi's informal sector. The notion that informal entrepreneurs are necessity driven and have minimal growth aspirations is therefore in need of evaluation.

In this thesis, I critically examine the notion that so-called necessity entrepreneurs – those who start a business because they lack alternative means of livelihood – have low or no growth aspirations. I test the apparently dominant view outlined in Chapter 3 that entrepreneurial motives matter, by bringing to bear other factors that may explain entrepreneurs' growth aspirations. I draw on qualitative research methods to answer the following questions:

1. What are the growth aspirations of informal youth entrepreneurs in Nairobi?
2. What explains variation in growth aspirations among *jua kali* entrepreneurs?
3. To what extent are entrepreneurial motives associated with growth aspirations?

This study evolves around the four hypotheses outlined in Chapter 3, which are derived from the conceptual framework guiding this research:

H1: Necessity-driven entrepreneurs have low or no growth aspirations

H2: Greater entrepreneurial *ability* is associated with higher growth aspirations

H3: Greater *need* for firm growth is associated with higher growth aspirations

H4: Greater *opportunity* for growth is associated with higher growth aspirations

Through this research, I aim to generate insight into the potential relationships that exist between growth aspirations and these overarching attributes. By framing my analysis around these four hypotheses, I am able to examine a wide range of variables that may or may not affect the growth aspirations of young *jua kali* entrepreneurs in Nairobi. In turn, this allows me to establish new knowledge that may help explain why some entrepreneurs

are more growth oriented than others, and how policies can be better directed to support meaningful employment creation through *jua kali* entrepreneurship.

4.2 Research design

To determine the growth aspirations of *jua kali* youth entrepreneurs and gain insight into why some may be more growth oriented than others, I carried out qualitative field research in Nairobi from May to June 2016. Over four weeks, I interviewed 58 young entrepreneurs (33 male and 25 female) between the ages of 18 and 34 years from some of Nairobi's major *jua kali* manufacturing clusters. I focused my research on three manufacturing sub-sectors – garment production, metalwork, and carpentry – which I identified during an earlier scoping visit to Nairobi in April 2016. More information about these sub-sectors, the specific research sites, and the sampling procedure are provided in section 4.3 below. Most interviews lasted between 30 – 60 minutes and either took place at the entrepreneur's place of work or in a more private location. I obtained informed consent from all participants before commencing the interviews, and with the participants' permission I recorded each conversation. While the interviews were flexible and continuous in nature, most of the data I collected took the form of short answers to open-ended questions. A research assistant accompanied me during the interviews in order to translate between English and Kiswahili when necessary. After collecting the data, interviews were transcribed and those that took place primarily in Kiswahili were translated into English. To ensure confidentiality, I then assigned pseudonyms to each participant in order to protect their anonymity and stripped any identifying information from the data.

By collecting information through semi-structured interviews I was able to generate reliable and comparable qualitative data (Cohen & Crabtree, 2006). This process yielded a

fairly structured dataset, permitting a systematic comparison between participants on many characteristics. To analyze the data, I combine descriptive statistics and qualitative analysis, using Microsoft Office Excel and NVivo data analysis software. I carry out a type of survey analysis to interpret the more quantifiable data, whereby variation in the dependent variable – growth aspirations – is matched with variation in other variables. Co-variation is the logic of survey analysis, and although survey research is widely considered inherently quantitative, the data grid required for this type of analysis can be filled using more qualitative data collection approaches (Vaus, 2013; Jansen, 2010). Moreover, the "nature of the data that are collected for the grid need not be quantitative" – cells may be filled with numeric data but they may also be filled with more qualitative information (Vaus, 2013, 6). I used a survey data grid to organize responses and examine relationships between growth aspirations and other explanatory variables. Since it was beyond the scope of this study to introduce controls, I examine one-to-one correlations between the dependent variable and independent variables without controlling for the effect of any other factors. This method allows me to identify notable relationships among the main variables but does not enable me to infer causality.

Although some of my data was quantifiable and could be analyzed by matching variation, my overarching research question – that is, examining why some young entrepreneurs are more growth oriented than others – lends itself to more qualitative research methods and analysis. Since entrepreneurial growth aspirations exist at the individual level, the intention of my study was to examine characteristics of individual entrepreneurs, not the social interactions between them. Thus, I carried out in-depth individual interviews, which "are useful when you want detailed information about a

person's thoughts and behaviors or want to explore new issues in depth" (Boyce & Neale, 2006, 3). I chose qualitative methods to be able to probe initial responses for more detailed and contextual data, which structured and rigid surveys would not permit.

Despite the fact that data collection was shaped strongly by the conceptual framework, this study was still investigative in nature. Since *jua kali* entrepreneurs operate informally, existing data on these young business owners is limited, especially with regards to their motives and aspirations. Thus, although I had Davidsson's evidence-based framework to guide the interview questions and topics, I wanted to capture participants' opinions and experiences by hearing them in their own words, not by asking them to choose responses from a set of pre-determined closed survey questions. My interview guide – which comprised both closed and open-ended questions – was designed around five major themes: aspirations, motives, ability, need, and opportunity. This enabled me to collect comparable data across a range of specific variables, but it also facilitated the emergence and discovery of unexpected trends and themes.

Responses were analyzed using open coding to permit an unrestricted view of participants' outlooks and experiences. Each pre-determined variable of interest was incorporated as a column into my data grid in Excel, which was structured around the five themes derived from my conceptual framework. Responses and codes were entered into the cells. I then used pivot tables to determine the frequency of the most prevalent responses/codes, as well as to match variation in the dependent variable with variation in the other variables of interest. After identifying interesting trends in variation, I performed another stage of open coding to reveal any unanticipated themes and to further investigate the data. This allowed me to delve deeper into the responses to provide more thorough

explanations of the apparent trends. For any observed co-variation that raised questions, I was able to examine the context and present the nuances embedded in participants' responses. The results of this analysis are presented in the next chapter.

4.2.1 Dependent variable

The dependent variable (DV) in this study is the growth aspirations of individual entrepreneurs. Aspirations can be understood as a malleable combination of goals, ambitions, and motivations requiring an investment of time, effort, and material resources, such as money (Cobb et al., 1989; Sherwood, 1989). Growth aspirations may be measured using various parameters. The most commonly used indicators include expected or intended sales growth and relative employment growth during a specific time period, typically five years (Tominc & Rebernik, 2006; Autio & Acs, 2010; Hessels et al., 2008).

In this study, I measure growth aspirations by the number of additional people the entrepreneur aspires to employ in five years. This indicator – five-year job growth aspirations – is easy to measure and reflects the broader vision of entrepreneurship as a solution to the rising youth unemployment crisis. As Mead and Liedholm (1998) explain, "When compared to alternative indicators such as changes in sales, output, or assets, this measure is often favored because it is most easily and accurately remembered by entrepreneurs and because it does not need to be deflated" (66). Thus, this study examines entrepreneurial growth aspirations through the lens of job creation.

4.2.2 Independent variables

To generate insight into the validity of the four hypotheses outlined above, I match variation in growth aspiration levels with variation in a wide range of independent variables. The first independent variable in my study is entrepreneurial motives (i.e.

necessity or opportunity). To shed light on the type of entrepreneurs involved in my study, I first identify their reasons for running the business to see whether they fit the description of necessity-driven entrepreneurs. I analyze responses about their options and choices in order to assess whether they engage in entrepreneurship as a survival strategy or more by choice, and whether or not this has any apparent effect on growth aspirations.

The other independent variables in my study are derived from the Determinants of Growth Motivation model developed by Per Davidsson (1989a), which was formative to my work. This model, as discussed in Chapters 3, suggests the determinants of growth aspirations fall into three broad categories: *ability, need*, and *opportunity.* Most of the pre-determined independent variables I set out to examine in my study can be categorized within these three broader concepts. For instance, to determine the entrepreneurs' *ability*, I consider the following independent variables: perceived ability, education levels, relevant employment experience, prior business experience, and age. I include the entrepreneur's age as a proxy for other factors that develop over time, such as maturity and life experience, which can affect the entrepreneurs' ability to pursue firm growth.

I also consider independent variables regarding *need* for growth, including: the entrepreneurs' daily profits, the age and size of their business, their level of economic satisfaction (measured by asking whether or not they earn enough), and the number of people who depend on their income. Finally, to assess their *opportunity* for growth, I examine the following independent variables: the industry sub-sector in which they operate; their level of family support; their start-up capital and access to finance; their major barriers and challenges; and the geographic location where they operate. Since the entrepreneurs' age and gender may affect other factors related to ability, need, and

opportunity, I also include these as independent variables to see whether or not they help explain any of the observed variation in growth aspiration levels.

4.3 Setting, population, and sampling procedure

In this thesis, the target population is youth entrepreneurs (ages 18 - 35 years) who own and operate informal micro- and small enterprises in Nairobi's *jua kali* manufacturing sector. A sample is defined as "a smaller (but hopefully representative) collection of units from a population used to determine truths about that population" (Field, 2009). The selection process of my study sample, which I outline in detail below, involved both purposive and random sampling, allowing me to capture a fairly representative sample. With insight from local experts who I spoke to during my scoping visit (primarily university professors with experience in this field, as well as management staff at a major MSE state corporation), I purposefully selected three manufacturing sub-sectors relevant to the study of young entrepreneurs in Nairobi: garment production, carpentry, and metalwork. In total, my sample includes 22 entrepreneurs (11 men and 11 women) from the metalwork sub-sector, 18 entrepreneurs (7 men and 11 women) from the garment sub-sector, and 18 entrepreneurs (16 men and 2 women) from the carpentry sub-sector.

After identifying these broader sub-sectors, I then selected the urban manufacturing clusters in Nairobi that would form my five research sites: 1) the Kamukunji *Jua Kali* metalwork cluster; 2) the Uhuru Market garment cluster; 3) the Gikomba market garment cluster; 4) the Gikomba carpentry cluster; and 5) a furniture/carpentry cluster along Juja Road. Clusters are geospatial concentrations of vertically or horizontally linked micro- and small enterprises engaged in related lines of business. These clusters were selected following consultations with local experts to capture the areas in which young

entrepreneurs are engaged, as well as to capture gender variation. Gender balance in Nairobi's clusters is heavily based on the overall gender balance of the sector itself:

> *Sectors such as textiles and garments have higher representation of female entrepreneurs than metalwork and machinery. Consequently… men dominate metal-processing clusters, whereas women are more visible in garment and handicraft clusters* (Yoshino, 2011, 80).

The first research site is the Kamukunji Jua Kali manufacturing cluster, which I learned during my scoping visit to be a driving force in the *jua kali* metalwork sector. The Kamukunji cluster is one of Kenya's largest and most densely populated manufacturing clusters. It is also one of the country's oldest clusters, having evolved from a very small group of less than 20 artisans who first started working in this location as early as 1965 (Kamukunji Jua Kali Association, 2016). Within this cluster, I identified an association of informal sector workers that represents about 4,000 workers employed in metalwork: the Kamukunji *Jua Kali* Association. Through this association, I was able to access a list of youth business owners-managers (ages 18 - 34 years) operating within the cluster. I then used random sampling methods to select 10 male and 10 female entrepreneurs who were invited to take part in the study. Since some were not available or did not wish to participate, I continued to randomly select more participants until 10 men and 10 women accepted. I thus ended up with a representative sample of young male and female entrepreneurs operating within that cluster.

Uhuru Market, the second research location, is a cluster of micro-scale garment producers in Nairobi that contains enterprises involved in tailoring, dressmaking, and embroidery. Women-owned enterprises are dominant in Uhuru Market (Yoshino, 2011). Located just off Jogoo Road in Nairobi, this garment cluster is particularly famous for tailoring school uniforms. It consists of 3 permanent structures or blocks which were built

in 1974 to replace older temporary premises and which were originally designed as retail outlets for groceries and clothing (see Illustration 1) (Dijk & Rabellotti, 2005). Over time, grocery vendors could not compete with open-air markets selling similar goods just outside the premises, so the clothing retailers took over. Inside the blocks, lighting is dim and ventilation is poor. As Dijk & Rabelloti (2005) describe:

> *The markets are subdivided into small stalls of about two square metres. Three or four machines are squeezed into this small space, leaving little room for movement or storage of raw materials. Some innovative founders have built upstairs rooms out of wood to house more workers and machines (116).*

In Uhuru Market, I was unable to identify any workers associations that could assist me by providing a list from which I could randomly select participants. Instead, I purposely selected young entrepreneurs by randomly walking through the four sections of the market and talking to different business owners. Since many of the business owners in Uhuru Market were older than 34 years, it took some time to identify enough young entrepreneurs who were willing and able to speak with me. Thus, my sample was comprised of the young business owners/managers I was able to identify while walking through the different blocks. Since women-owned businesses are predominant in this market, I ended up interviewing 6 young women and 3 young men in this particular cluster.

Illustration 1: Block A, Uhuru Market, Jogoo Road

Source: Author, 2016

I used the same sampling technique in Gikomba Market, which has been defined as "one of the greatest employers of the urban poor" in Nairobi (Ngugi, 2015). Though Gikomba Market is recognized mainly for the re-sale of second-hand clothes, it consists of

many sub-sections and clusters, including a garment/tailoring cluster and a carpentry cluster which formed my third and fourth research sites, respectively. The Gikomba garment-production cluster is situated mainly within permanent premises which were also built in 1974 "to replace older, makeshift premises from the colonial period" (Dijk & Rabellotti, 2005, 116). They evolved much in the same way as the blocks of Uhuru Market and share very similar characteristics. The Gikomba Market carpentry cluster, on the other hand, is made up of semi-permanent structures and open-air workshops situated along the Nairobi River (see Illustration 2). Again, many of the enterprises in the garment cluster in Gikomba are owned by women, while nearly all of the businesses in the carpentry cluster are owned by men. These gender differences are captured in my sample from Gikomba: in the garment cluster I interviewed 4 men and 5 women, while in the carpentry cluster I interviewed 12 men and no women.

Illustration 2: Gikomba carpentry cluster

Source: Author, 2016

My fifth and final research site was located outside of these clusters in a different part of Nairobi, just north of Eastleigh. For variation purposes, I interviewed 8 young business owners operating along Juja Road near Outer Ring Road: 1 man and 1 woman involved in metalwork, and 4 men and 2 women involved in carpentry (see Appendix A for map of research sites). Juja Road is an important city artery in Nairobi that cuts across the expansive Eastlands suburbs and reaches out to the Kariobangi Light Industries, an area the local government designated as an area for artisans in 1989 (Sonobe et al., 2011). Right along Juja Road, micro-enterprises are set up

in very temporary shelters mostly forged out of tin sheets and wood. Since these firms are not included in any broader market or workers associations, they operate in particularly precarious conditions. Interestingly, two of the entrepreneurs I interviewed from this cluster own and operate funeral service businesses; they engage in the manufacturing of coffins, but they also offer full funeral services. This added an unexpected dimension to my sample, as I was able to generate some insight into the growth aspirations of those involved in the services sector as well.

4.4 Analytical strategy

This is an exploratory study. It examines the applicability of a theory that was originally developed in Norway, a wealthy country with a heavily regulated business environment, in a wholly distinct environment characterized by extensive poverty and large-scale informality. A relatively small sample further broken down along gender lines and limited time to get a sense of the context and potential factors that could influence the dependent variable called for extreme prudence in the interpretation of the data. It was thus decided to focus on a variety of operationalizations (17) of the four major independent variables examined (ability, need, opportunity, and motives), and to look strictly at the relation of each of those with the dependent variable (see Appendix B). The repetition of the test was seen as an effective way to tentatively assess the validity of each of the four general hypotheses in the particular case examined (internal validity).

Compared to multivariate statistical analysis or even to the use of 2x2 matrix to examine the joint effects of some of the variables, this approach may look a bit crude. Given the timeframe of this research, the limited resources available, the relatively short time that could be spent in the field, and the length limits imposed on the thesis exercise,

however, it was felt that an interpretation based on consistent effects of the 17 operationalizations was the most robust that could be obtained for now. In chapter 6, I examine the limits imposed by this choice and the paths available to deepen the analysis of the data collected for this thesis; I identify areas for further research that can build on the results of this analysis and generate insights that may be more generalizable (external validity).

4.5 Other methodological considerations

As an outsider researcher and *mzungu*[4], I was highly aware throughout the course of my fieldwork of how my presence was received in the various markets where I worked. When I approached the *jua kali* entrepreneurs to tell them about my research and to ask if they would be interested in taking part in my study, I was greeted most often with curiosity, and sometimes with scepticism. Once they understood the motivations of my research and the rationale for my presence there, the young owner-managers were generally open to hearing more about how they could participate and what that would entail.

The ethical considerations for this study were approved by the Carleton University Research Ethics Board (CUREB). In addition, I also obtained the necessary research authorization from Kenya's National Commission for Science, Technology and Innovation (NACOSTI). As per CUREB protocols, I provided each participant with clear information about the study so that they could make a fully informed decision to participate. They were given the opportunity to ask questions in English or Kiswahili (I had an interpreter with me) and I made sure that all of their queries were answered before getting their consent to start the interviews. Importantly, I ensured that all participants understood the research is

[4] *Mzungu* is a Bantu language term used in Kenya and throughout the African Great Lakes region to refer to a white person or a person of European decent, typically in a non-derogatory way

for academic purposes and that their answers would be strictly confidential. Moreover, I did my best to make sure they fully understood that I was not involved in any development programming and that I was not there to help them grow their businesses. Once I provided them with details about the study, most youths were very willing to take part. Some even seemed to appreciate that I was interested in hearing about their experiences. Based on the individual conversations I had with each participant, I felt that their responses were genuine. Although I did not get the sense that their responses were inflated in the hopes that I would assist them, it is possible that this introduced a slight response bias. Nonetheless, I am confident that any possible effect of this nature was minimal.

As the sampling procedures outlined above show, I was able to capture a fairly representative sample of young male and female entrepreneurs within each of the clusters included in my study. It should be noted, however, that the clusters I selected are all somewhat similar in terms of the socio-economic characteristics of the entrepreneurs they attract. It was beyond the scope of this study to include *jua kali* youths operating within Nairobi's slums or in the city's more affluent neighborhoods. All of the entrepreneurs who took part in this study were between the ages of 18 - 34 years at the time of the interview. The Kenyan constitutional definition of youth includes individuals between the ages of 15 - 34 years, with minors defined as persons below 18 years of age. In Kenya, child labour laws make it illegal for anyone younger than 18 to own and run a business. I therefore chose not to include any minors in my study. Moreover, the age range of 18 - 34 years captures the period in which youth experience the highest unemployment rates in Kenya (Zepeda et al., 2013).

5 Chapter: Data Analysis and Results

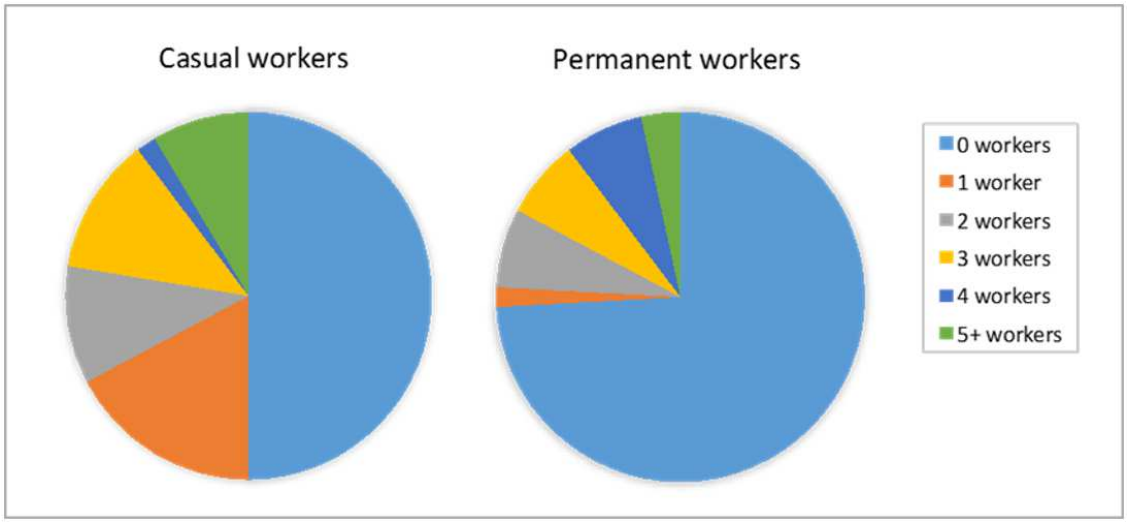
This chapter reports the results of the data analysis. The data were collected through qualitative field research and processed to examine the validity of the four hypotheses outlined in Chapter 3 of this thesis. The collection of data and subsequent analysis were driven by the goal of generating insights into the growth aspirations of young informal business owners in a developing-country context. I used qualitative research methods that yielded a fairly structured data set, allowing me to combine descriptive statistics and qualitative analysis, using Microsoft Office Excel and NVivo data analysis software.

5.1 Entrepreneurial intentions and growth aspirations

5.1.1 Current employees and casual workers

To understand the employment growth aspirations of the young business owners who took part in my study, I first examined their current number of employees. For many business owners in the j*ua kali* sector, income volatility makes it difficult to hire permanent workers. Since income fluctuates immensely from day-to-day and in many cases, seasonally, the majority of entrepreneurs lack the certainty required to hire permanent staff. Instead, they employ casual workers who are hired on a non-salary basis. Business owners hire casual help only when they have work to be done. Instead of earning a guaranteed monthly salary, the workers who take on these jobs – also known as '*fundies*' – typically engage in piecework, meaning they get paid according to the number of items they produce. My findings show that the majority of young entrepreneurs in my study (74.1%) currently have no permanent workers, while 50% have at least 1 casual worker (see Figure 3).

Figure 3: Number of casual workers and permanent workers employed



Source: Author, 2016

These results show that the employment creation potential of most of these small informal businesses is currently limited to casual labour. As I will discuss further in the following chapter, this raises questions about the future employment creation potential of these *jua kali* entrepreneurs: if they manage to grow their businesses, what kind of employment will they generate? Will they hire more casual workers, or will they be able to hire workers on a more permanent basis? My results indicate there is no apparent relationship between number of permanent workers and number of casual workers. In other words, those with more casual workers do not tend to have more permanent workers, and vice-versa. Since more than a quarter of participants currently have permanent workers, it can be expected that at least a portion of those who manage to grow their business in the next five years will hire workers on a more permanent basis. However, since more young entrepreneurs currently hire on a casual basis, this may suggest that a significant portion of the jobs these entrepreneurs will create in the next five years will also be casual in nature. This ties into broader conversations around the vulnerability of informal-sector employment, which I discuss further in Chapter 6.

5.1.2 Future intentions and growth aspirations

Most of the young entrepreneurs included in my study see business as an integral part of their future. When asked about their aspirations for the future, 88% of participants are planning to grow their current business in some way, such as by adding one or more branches, adding equipment, adding stock, or adding new products. Many participants indicated that they plan to add a new business in addition to the current one. Out of the few participants who said they do not intend on growing their current business, most have plans to start a new business instead.

When speaking with participants about their growth aspirations and plans for the future, an interesting finding emerged: many youth have a genuine desire not only to grow their revenues, but also to help others by employing and training more people. Although many participants are still struggling to make ends meet, they already have a sense of wanting to have a wider impact by creating employment opportunities for others. For instance, as one young woman who sells frying pans in the Kamukunji metalwork cluster told me: "*I want to help other people do what I do and start a business like me... When I get the money, I will employ more people and train them in the business so they can start theirs.*" As another young metalworker expressed:

> *If I could have my own store and employ people, I can be able to keep 4 or 5 men from back home who are just struggling and getting involved with drugs and make them busy, make them have something to do. Because you actually find some of them it's because they have a lot of idle time. If you can get them and get them something to do, you can easily tell them there is hope for the future, hope to prosper, and you can give them hope to do business and support them financially.*

This theme was evident across all sub-sectors. As one tailor in Gikomba Market expressed: *"I feel great because maybe in the years to come I'll teach someone else on how to start.*

And maybe advise them on how to save and how to start. Or maybe, on how to pick themselves up and start from scratch." When speaking with a young tailor in Uhuru Market about her views of successful entrepreneurship, this is what she shared:

> *It's not always about the money. We need the money, yes, but you're also able to employ other people through your business. That way, you're contributing to the nation – that would be my success, because you're going to employ people through your business and you're making a change. By making those people not become unemployed, you'll bring another family out of it.*

In the carpentry sub-sector, this notion of wanting to give other people opportunities came up particularly while discussing whether participants would accept another job and leave the current business (discussed further in section 5.2.3 below). One participant in the Gikomba cluster told me: *"I would take (another job), and then the opportunities I was having where I was working, somebody will get it – he will get the chance there. And he'll work there, and when God blesses him, he will come up like me, when it happens."* This same sentiment was reiterated by a young furniture maker along Juja Road: "*Yes, I would leave this shop for someone else, so that he or she can get the chance."*

For some, the emphasis was placed on wanting to employ their family members. For instance, one young woman in the metalwork cluster said: *"I started because I wanted to depend on myself and also employ other people. I would like to employ my family members, since I was also supported by my uncle, so I would like to support my family."* As another entrepreneur in Kamukunji expressed: *"In five years, I want all my family members – those who don't have a job – to come and join me. So that them, they can admire my shop, and they can open another one, and another one, like that."*

These examples capture the seemingly widespread outlook among participants of wanting to help others escape unemployment. I contend that it is important to recognize this dynamic, as it suggests that there are other intentions behind these young business owners' growth aspirations aside from just personal gain. Young entrepreneurs in the *jua kali* sector do not necessarily aspire to be employing more people in the future simply because it represents broader business success, but also because they genuinely hope to be helping others. As I present the descriptive statistics about growth aspirations below, it is essential to keep this in mind.

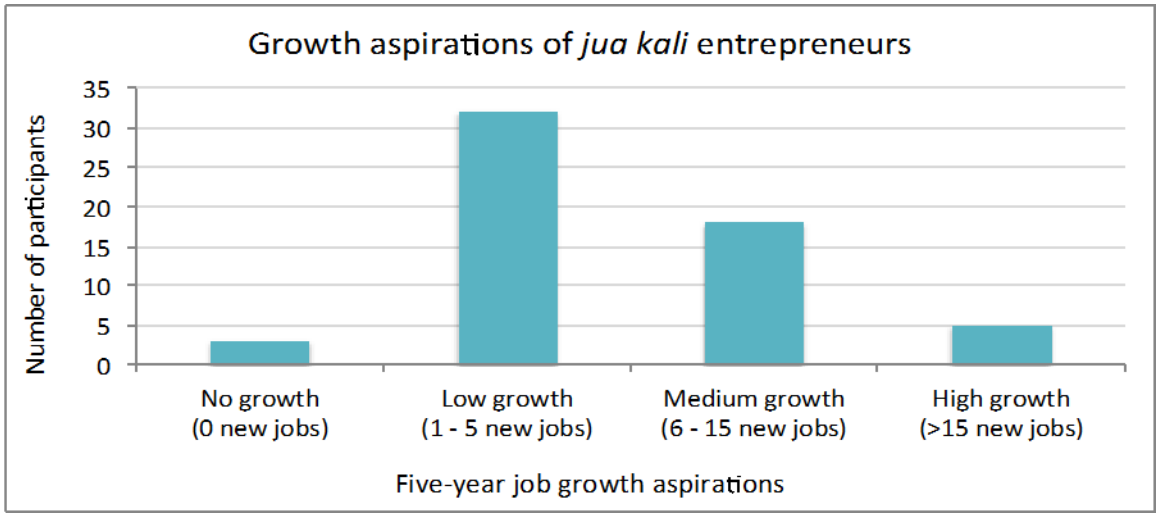
To measure the dependent variable of this study – entrepreneurial growth aspirations – I examine the increase in the number of additional workers the business owner aspires to employ in 5 years. As mentioned above, my results show that most *jua kali* youth entrepreneurs who currently employ workers do so on a casual basis, as opposed to hiring permanent staff. For the purpose of my analysis, I look at employment creation broadly, considering both casual and permanent new jobs.

To assess the five-year job growth aspirations of each entrepreneur, I assign five values: no growth = 0 new jobs; low growth = 1 – 5 new jobs; medium growth = 6 – 15 new jobs; high growth = more than 15 new jobs. These values are similar to those commonly used in other studies on growth aspirations (for example, see Tominc & Rebernik, 2006). The labels used (i.e. low growth vs. high growth) are not intended to be an assessment of the absolute aspiration levels; they are only meant to describe the level of growth aspirations of each entrepreneur in comparison to the rest. For instance, '1 - 5 new jobs' is not necessarily low, especially for an entrepreneur who has never had employees before. Arguably, even one or two new employees could be considered high growth for a

business that currently employs only the owner. Thus, by "low growth" I simply mean low in comparison to those with higher aspirations.

My findings show that the majority of participants have either low growth aspirations (55%) or medium growth aspirations (31%), aspiring to employ up to 5 and 15 additional workers, respectively. Only three participants expect no job growth at all during this period, and five participants expressed high growth aspirations, aspiring to add more than 15 new jobs (see Figure 4). For some entrepreneurs, this growth is expected to occur within the current business that they are already running. For others, however, the plan is for these additional jobs to be created in new businesses or branches that have not yet been established.

Figure 4: Growth aspirations of jua kali youth entrepreneurs

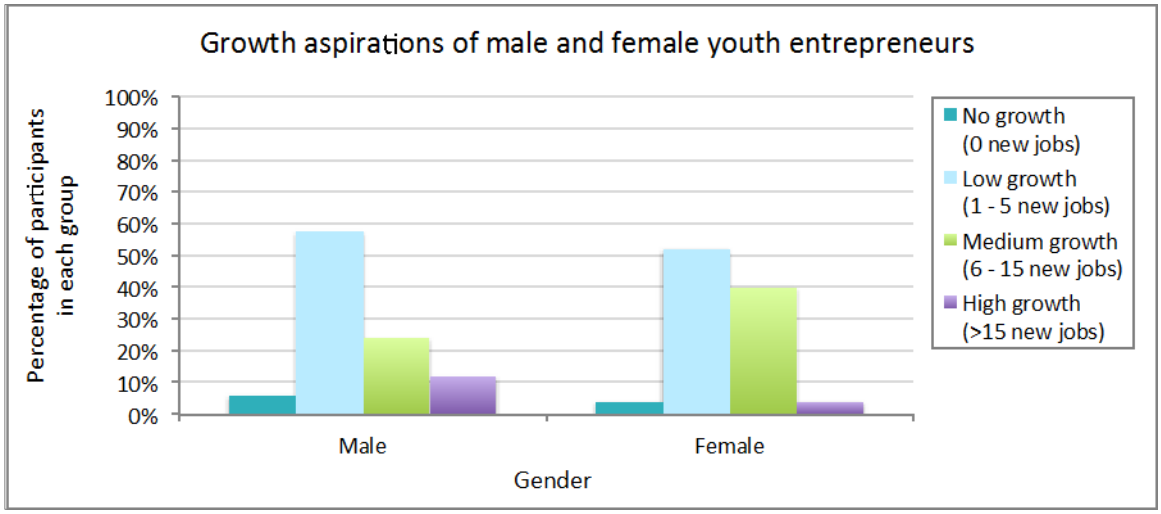


Source: Author, 2016

Autio & Acs (2007) suggest gender is an important individual-level characteristic that has a strong influence on entrepreneurial growth aspirations. In order to assess whether this is an important variable among young entrepreneurs in a developing-country context, I included 33 men and 25 women in my sample. In Figure 5 below, I compare the growth intentions of male and female entrepreneurs in my study, showing the proportion of men

and the proportion of women who have no growth aspirations, low growth aspirations, medium growth aspirations, or high growth aspirations. As Figure 5 shows, it is more common for young women to have medium-level growth aspirations (40%) compared to men (24%), while more men tend to have low-level aspirations (58%) compared to women (52%). Men are slightly more likely than women to have no growth aspirations, but they also more likely to have high growth aspirations: 12% of men have high growth aspirations, compared to just 4% of women.

Figure 5: Growth aspirations of male and female jua kali youth entrepreneurs



Source: Author, 2016

While these results suggest the entrepreneurs' gender is to some extent associated with variation in growth aspirations, it is not enough to explain why some youth are more growth-oriented than others. Other variables that may or may not be associated with gender must also be considered. For instance, most of the female entrepreneurs in my study were located in the garment and metalwork industries, as there were very few young female entrepreneurs operating in the carpentry sub-sector. Thus, a sub-sector-based assessment is also needed, which I provide in section 5.5.1 on industry sub-sectors and growth aspirations (see Figure 16). In the sections that follow, I present the analysis of a wide range

of potential explanatory variables to assess what factors help explain the observed variation in growth aspirations among the *jua kali* youth entrepreneurs in my study. In particular, I examine entrepreneurial motives (i.e. necessity or opportunity) and other variables related to the entrepreneurs' ability, need, and opportunity.

5.2 Entrepreneurial motivation and growth aspirations

As discussed in Chapter 3, the distinction between 'necessity' entrepreneurs and 'opportunity' entrepreneurs has become a predominant classification schema in the entrepreneurship literature. The distinction is made primarily on the basis of options and choices: while necessity entrepreneurs are defined as those who are pushed into entrepreneurship as a survival strategy because it is their only viable option, opportunity entrepreneurs are defined as those who are pulled into entrepreneurship as a choice. Recognizing that the dichotomous nature of this approach has been critiqued for oversimplifying the complex motives of entrepreneurs, one of my objectives was to first observe whether or not the *jua kali* entrepreneurs in my study could be classified as necessity-driven, and then to test the seemingly predominant view that this group has lower growth aspirations.

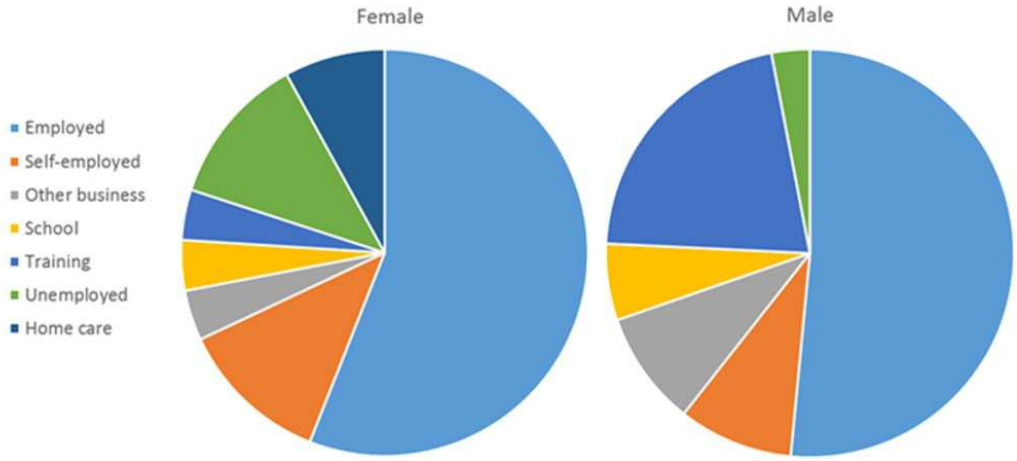
In order to achieve this objective, I first had to determine how many of my participants, if any, fit the description of necessity-driven entrepreneurs. To make this assessment, I asked them the following questions about their options and choices, in order to reveal their underlying reasons for engaging in entrepreneurship: What were they doing before they started the business? Did they have other options at the time they started the business, and do they have other options now? What is their main motivation for running the business? If they were given the opportunity to take a different job, such as formal-sector work or

another type of wage job, would they take it? As these questions reflect, I contend that motivation is only part of the equation when determining if someone is driven into entrepreneurship out of necessity. To assess whether someone truly falls into the necessity-driven category, one must look at their experience from all of these angles. In this section, I present the results that led me to conclude that the majority of participants in my study (88%) were driven to run their business out of necessity.

5.2.1 Occupation immediately prior to starting the business

To get a better sense of why participants decided to start their businesses, I asked them about their occupation immediately before launching the business. My results show that before starting the current business, 31 participants (53%) were employed, 10 participants (17%) were self-employed or running a different business, eight participants (14%) were receiving training for their current business (not in formal programs, but within *jua kali*), four participants (7%) were unemployed, three participants (5%) were in school, and two participants (4%) were home taking care of the children. As Figure 6 shows, there are some significant differences between the experiences of young men and young women when it comes to what they were doing before starting their businesses.

Figure 6: Participant occupation before starting the current business



Source: Author, 2016

Notably, fewer women than men were in school, self-employed, or running another business, and far fewer were in training. On the other hand, more women than men were either employed or unemployed, or at home taking care of the children. For most of the women who jumped directly from unemployment or home care into running a business, they either had start-up help from their business-oriented husbands, or they were still living at home after finishing school, turning to self-employment due to lack of other options. The majority of entrepreneurs were employed before starting the current business. This is not to say, however, that they left productive wage jobs in order to start their business. In fact, quite the contrary, most individuals who were previously employed opted to start a business because the wages they were earning were too low and the jobs too restricting.

To paint a clearer picture, out of those who were employed beforehand, 23 participants (or 74.2%) were employed within *jua kali*, in a field directly related to their current business. It was actually their engagement in former *jua kali* employment that led them to start their own firms. For instance, in the metalwork sub-sector, a very common type of business is in the production and sales of large metal boxes or trunks that are used primarily by school children to store their belongings while they are away at boarding schools (see Illustration 3). Almost every participant in the metal box business was previously employed in *jua kali* making those same type of boxes for another business owner, typically a family member or friend. As one participant described:

> *I started this business dealing with the employer. I was selling the boxes to him and he was selling to customers. From there, I discovered that I can make and sell them through customers. I just collected the small profits and got enough money to make more boxes, and then since I got the money, I started my own business.*

Many participants told a similar story: they received training within *jua kali* and then, after working for some time as an employee, they saved enough to open their own business making the same products. This is very common in the *jua kali* sector, where product differentiation is limited and competition is high. Although this group of entrepreneurs did have other income-generating options at the time, since they were employed when they started their business, it was clear that their former employment was not a *viable* option, since the payment was so small. As one young woman in the garment industry described:

Illustration 3: Painted metal boxes in the Kamukunji Jua Kali cluster

Source: Author, 2016

> *I was employed by someone doing the same job, but that person was not paying me well. So I decided that if I can start my own business, I can make more money.*

My results suggest that many *jua kali* entrepreneurs left their prior jobs because they were not earning enough to survive. Although the fact that they were employed beforehand may be interpreted as evidence that they were not driven into entrepreneurship out of necessity, in reality they were not earning enough to cover their needs. As I will show in the following sections, my results show that the majority of *jua kali* youth in my study clearly fit the description of necessity-driven entrepreneurs.

5.2.2 Other viable income-generating options

Most participants (78%) indicated they either had no other options for earning an income outside of the current business, or that the other options they had were not enabling them to meet their basic needs. Some of these participants explained that while they had

other business options, they could not pursue them because they lacked the necessary capital. As mentioned above, others explained that while they did have other employment options – in most cases, *jua kali* work – the wages were too low and not sustainable. Out of those who indicated that they did have other options at the time (22%), some explained that they could have just continued working in their previous job, while others said they could have pursued other business options. Again however, when I probed for more details about the work they could have continued with, most participants explained that it was not a sustainable option because the pay was too low to support them. Thus, even out of those who said they did have other options for work, the majority did not have other *viable* options, which is why they turned to starting a small business instead.

Similar to the lack of options they had at start-up, the majority of participants indicated that they currently have no other feasible options for earning an income. As one participant stressed: *"I can only expand my business and do other jua kali work. I can expand to another place, but I can't leave jua kali."* Similarly, other participants suggested that their only choice is to start another business. However, most either cannot afford to pursue those options or they are still in the process of saving so that they can invest in those businesses later on. A few respondents said that they do have options, but that they are not interested in taking those options because they are either too low-paying or too restricting, or both.

5.2.3 Willingness to accept a different job

If someone truly started a business only because they had no other choice, one might expect that person to jump at any other job opportunity. To get a better sense of my participants' commitment to their businesses and willingness to leave it, I asked them whether they would accept a formal-sector job or a wage job if it were offered to them.

Only 15 participants (26%) said they would *not* take another job, preferring to continue running the business instead. A few of these participants have really come to love the business, preferring self-employment rather than working for someone else. Others, however, said they would not take another job because their previous wage work did not meet their needs, and the only type of job they would be offered, given their education levels and experience, is the same type of work they had before. Since many of them had negative experiences being employed, expressing that they were underpaid and often *"misused,"* this helps explain why they were not eager to accept another job. The majority of participants (74%) said they would take another job, although many stressed they would only accept if the pay is better than what they currently earn. Notably, ten participants who said they would take another job were not willing to close their business entirely – they would hire a manager to run their shop and use the extra wages to boost their business.

5.2.4 Motivation for running the business

When asked about what motivates them to run their business, the majority of entrepreneurs in my study said it was either the need to take care of their families and children (36%) or earning capital/income (29%). For example, as one young man in the Gikomba garment cluster expressed, *"Sleeping hungry – that motivates me.*" Or, for instance, as another metalworker stressed: *"I have children who need to eat, dress, and go to school. All of that requires money and I don't depend on anyone else."* Other commonly cited motivations include the chance to create a better life, the goal of growing the business, and the reality that they have no other options. A few participants said they are motivated by the love of business or the freedom it provides.

5.2.5 Necessity entrepreneurs at large

As the results presented in the above sections have shown, most participants in my study clearly fit the description of necessity-driven entrepreneurs: they turned to entrepreneurship because they had no other viable options; they are largely motivated by the need to feed their families and survive; and they would take another job if they had the option. In other words, they are driven by the basic *need* to survive and earn an income, having turned to business because they had no better choice. Only seven participants in my study either expressed more opportunity-related motives or views that were not consistent with answers expected from a necessity-driven entrepreneur. For comparison purposes, I label these participants 'opportunity' entrepreneurs, only as a way of differentiating them from those who very clearly fit the description of a necessity-driven entrepreneur. It is interesting to note that five of these 'opportunity' entrepreneurs are in the garment sub-sector, while the other two are the only participants who are involved more in both manufacturing and services. As the following cases show, the division is not always very clear: both opportunity and necessity motives may be present.

John is a 30-year-old *jua kali* entrepreneur who studied IT in college but was unable to finish due to financial constraints. He owns a growing informal business in Nairobi producing and selling school uniforms. He was very clear about his reason for starting the business: "*I think it is about the opportunity. The opportunity was there, and I took that opportunity*." Before starting his business 5 years ago, John was self-employed: he used to *"hustle"*[5] by selling bananas and avocados out of a wheelbarrow. When I asked him how he made the transition into his current business, he explained:

[5] "Hustle" is a term commonly used by *jua kali* youths to describe informal self-employment

> *Because the season was low for avocados and bananas – it was a cool season. So I thought: there must be something I can do. And it was going-back-to-school season. So the things that other people were doing is selling school products, school uniform products. So I started to sell school socks, using my wheelbarrow – going around.*

From there, John acquired some regular customers who started asking him for more socks and other products, like t-shirts and tracksuits. This triggered his interest and he started buying items within the markets and taking them out to his customers. Eventually, he was able to start-up his own shop in the market. John said that while he is motivated by the ability to meet his daily needs, his main motivation is the growth of his business. When asked if he would take another job, John told me:

> *No, I would continue being here. Because of independence of the business and I want it to go far, I want it to a big thing in the near future. So I want to nurture it. I won't take any, any, any wage salary or anything like that.*

I would have expected someone who started off *hustling* and selling bananas out of a wheelbarrow to be a clear example of someone who is driven out of necessity. However, John stressed that he had many options, and that it was the opportunity that pulled him into the garment-production business. I contend that John represents an example of how entrepreneurial motivation may shift over time, from more necessity-driven to more opportunity-oriented. John first started hustling because he had no other income-generating options, but once he gained some regular customers and started exploring other options beyond selling bananas, he rapidly became motivated by new business opportunities. Notably, John was one of the few entrepreneurs in this study who expressed very high growth aspirations: while he currently employs 4 workers, he plans to employ 50 workers in the next five years.

Kinaya is a 26-year-old university graduate who holds a Bachelor of Science in Computer Technology. She also owns and runs a *jua kali* business producing and selling school uniforms in one of Nairobi's major garment markets. Kinaya was still in university when she came up with the idea to start a business:

> *I saw an opportunity, because actually these sweaters happen to be very expensive when you go to the up-market in Nairobi town. They still have the same things that I sell, but I decided to make the same things but sell them at a cheaper price.*

Soon after, when I asked if she had any other options, she explained:

> *Not really. Actually when you finish studying, it's not guaranteed that you'll get a job. So you have to find a way to survive, yes. And this became my survival tactic.*

While Kinaya has applied to different IT technician positions and even received one offer, she said the pay was too little: she makes double the amount doing business. What stood out to me about Kinaya is how she clearly stated that it was a business opportunity that pulled her into entrepreneurship, and then a few minutes later, just as clearly indicated that this is her survival strategy. She seems interested in finding another job, yet just as interested in maintaining her business. When I asked her if she would accept another job, she said she would, but only if it was a good working environment and it presented her with "*the opportunity to move up.*" She stressed that if she did accept another job, she would continue to run and grow her business, using the income from her job to *"boost"* her stock. I argue that Kinaya's story shows that it is not always easy or effective to classify someone as necessity- or opportunity-driven. Her aspirations for the future include opening another shop in town to do the branding of the uniforms. While she has five permanent employees now, Kinaya aspires to add five more workers in the next five years.

Benson and **David** are the only two participants – ages 30 and 33, respectively – who own and manage informal funeral service businesses in Nairobi, including the production

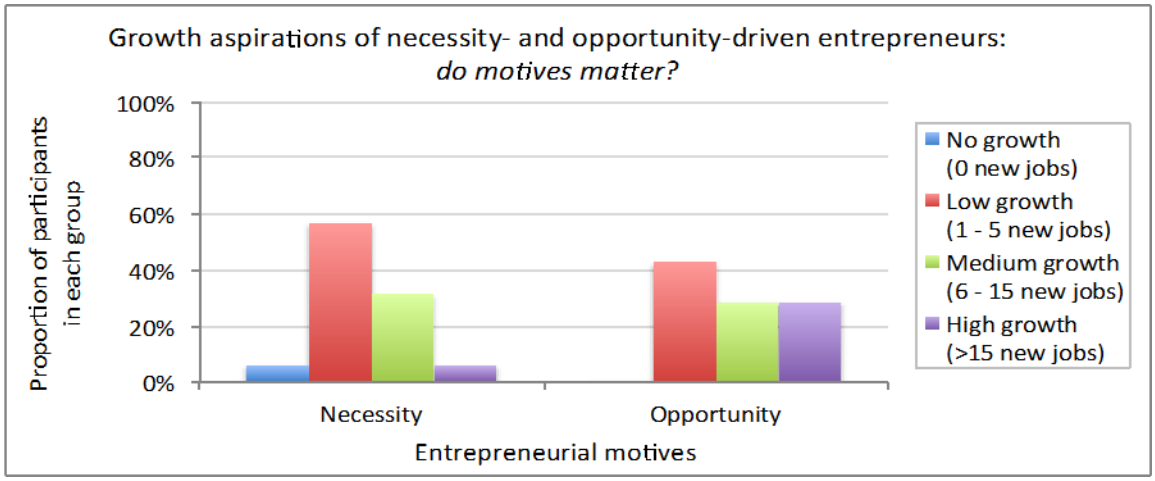
and sale of coffins. Their businesses are situated along Juja Road. Both cited opportunity-related motives for running their businesses, with neither of them fitting the typical description of a necessity-driven entrepreneur. For instance, Benson was working in his father's funeral service business when he decided to start his own shop. Motivated by his father's success, he branched away from the family business to seek independence and pursue his own personal ambitions. He said he has no interest in formal employment and would not accept a wage job if it was offered to him. Benson has high growth aspirations: he hopes to add 14 permanent workers in the next five years. David, on the other hand, is motivated mainly by the needs of his family, but he had other options and started this business because he saw an opportunity for good profit. He said he would not take another job because he is used to the level of freedom business grants him. David has lower growth aspirations: in five years, he aspires to employ four additional workers.

5.2.6 Conclusion: Motives and growth aspirations

As my findings suggest, the majority of young business owners involved in my study are indeed driven by necessity. Yet, seven participants (12%) do not fit the typical description of necessity-driven entrepreneurs (referred to here as opportunity-driven entrepreneurs). Given this variation, I was able to examine whether or not there is any evidence to suggest motives matter when it comes to entrepreneurial growth aspirations. Figure 7 below shows that there does seem to be a difference in the growth aspiration levels of those driven purely by necessity and those who cite more opportunity-related motives. While the proportion of entrepreneurs with low growth aspirations dominates amongst both the opportunity-driven and necessity-driven groups, a significantly larger proportion of

opportunity entrepreneurs have high growth aspirations, while only those driven by necessity have no growth aspirations (albeit a very small proportion).

Figure 7: Growth aspirations of necessity- and opportunity-driven entrepreneurs



Source: Author, 2016

Since the vast majority (88%) of *jua kali* entrepreneurs in my study are driven by necessity, this allows me to draw an important conclusion: in contrast to the predominant view that necessity entrepreneurs are subsistence-oriented and do not seek growth, I find that a wide range of growth aspirations exist among this group. While it does seem that those entrepreneurs driven by opportunity are more likely to express high growth aspirations, both groups express mostly low and medium growth aspirations, aspiring to employ anywhere from 1 – 15 additional workers in the next five years.

Overall, my results show that being driven into entrepreneurship out of necessity, which most *jua kali* entrepreneurs seem to be, should not be equated to lacking the desire to seek business growth. Based on the results of my analysis, I suggest that the first hypothesis – *H1: Necessity-driven entrepreneurs have low or no growth aspirations* – does not hold true amongst entrepreneurs in Nairobi's *jua kali* sector. Both the necessity-driven and opportunity-driven groups in my sample have a wide range of business aspirations,

including the desire and intention to pursue growth and employ others. I suggest that although necessity entrepreneurs perhaps face different challenges, they have an important role to play in the Kenyan economy and should not be overlooked. My research provides evidence that when it comes to employment creation, *jua kali* youth entrepreneurs have the potential and desire to create jobs and help others to start businesses as well. Since my analysis reveals a significant level of variance in growth aspirations that is not related to motives, I present in the following sections an analysis of other characteristics that might help explain this variation. In particular, I examine the potential influence of the entrepreneurs' ability, need, and opportunity for growth.

5.3 Ability and growth aspirations

Davidsson (1991) highlights that many previous studies on small firm growth use explanatory variables that clearly concern the entrepreneurs' *ability*. As he argues, "that ability is needed to make desired outcomes materialize could hardly be opposed" (408). Factors that may influence an entrepreneur's ability to run a business and to seek firm growth include education and various types of experience. For instance, Kolvereid (1992) uncovered a significant relationship between entrepreneurs' education and aspirations to grow their business. Moreover, Wiklund and Shepherd (2003) find that education and experience boost the relationship between growth aspirations and actual firm growth. Another important ability-related factor, as stressed by Davidsson, is *perceived* ability. In other words, it matters whether or not an entrepreneur feels that he or she has the necessary ability to succeed and achieve business growth.

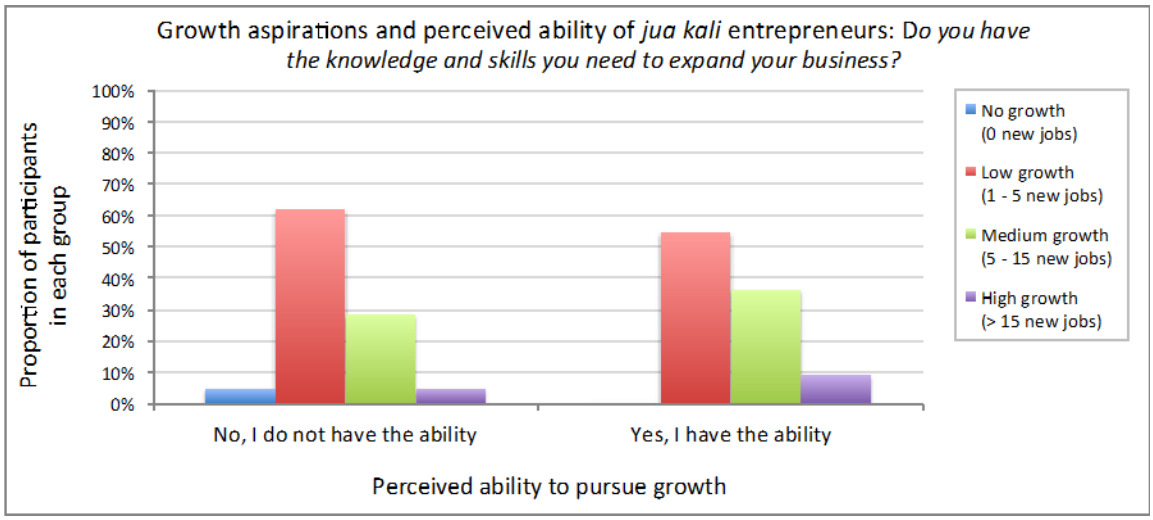
In this section, I examine the relationship between participants' growth aspirations and their growth-relevant ability, looking in particular at the following explanatory variables:

1) perceived ability; 2) educational attainment; 3) relevant employment experience; and 4) prior business experience. In doing so, I attempt to determine whether greater entrepreneurial ability, as represented by these four factors, is associated with higher growth aspirations among the *jua kali* entrepreneurs in my study.

5.3.1 Entrepreneurs' perceived ability

The conceptual framework guiding my study suggests that the entrepreneurs' perceptions matter when it comes to explaining growth aspirations (Davidsson, 1991). To get a sense of whether the entrepreneurs in my sample believe they have the entrepreneurial ability to pursue business growth, I asked them whether or not they feel that they have the knowledge and skills they need to expand or grow their business. Thus, with this question I was asking participants not to reflect on the broader situational constraints that may affect their ability to seek growth, but on their personal abilities. More than half (57%) of the entrepreneurs clearly indicated that they do feel they have the ability they need to pursue growth, while 36% were clear in stating they do not. Four participants were unsure, indicating that they do have some skills but could maybe use more training. Focusing on the two groups that clearly indicated *yes* or *no*, Figure 8 shows how the entrepreneurs' perceived ability correlates with growth aspirations. Those *jua kali* entrepreneurs who indicated *yes* appear to have proportionally higher growth aspirations than those who said they do not have the knowledge and skills they need. Notably, a smaller proportion (55%) of those who said *yes* have low growth aspirations, compared to 62% of those who said no, and a greater proportion (36%) have medium growth aspirations, compared to just 29% of those who said no. Moreover, it was only among those who do *not* feel they have the ability they need that 'no growth aspirations' were cited.

Figure 8: Growth aspirations and self-perceived ability to pursue growth

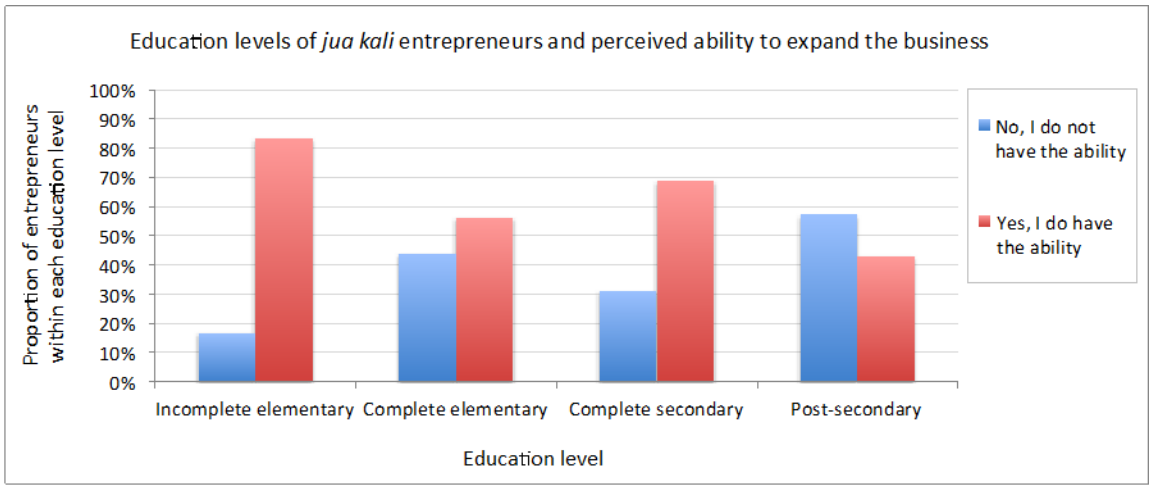


Source: Author, 2016

These results seem to indicate that to some extent, perceived ability does matter when it comes to explaining growth aspirations among *jua kali* entrepreneurs in Nairobi. As suggested in my conceptual framework, entrepreneurs' perceptions of ability are to some extent influenced by their actual or real ability. To see whether perceived ability aligns with the entrepreneurs' actual ability, I examined how entrepreneurs with different levels of educational attainment felt about their skills and knowledge.

As Figure 9 shows, the vast majority of entrepreneurs who never completed elementary school said *yes* – they do feel they have the knowledge and the skills they need to expand their business. In contrast, more than half (57%) of those with a post-secondary education indicated *no* – they do not feel that they have the knowledge and the skills they need to pursue growth. Thus, the relationship between perceived ability and level of education, which I present as one indicator of the entrepreneurs' actual ability to grow their business, is not positive, as one would expect. Those with the highest levels of education are the most likely to express negative perceptions when it comes to their entrepreneurial abilities.

Figure 9: Education levels and self- perceived ability to pursue growth



Source: Author, 2016

One possible explanation for this is that those with the highest levels of education have more complex plans for their businesses, thus leading them to believe they require more advanced knowledge and skills in order to pursue the type of growth they aspire to. Another potential explanation is that those with the highest levels of education are only running their businesses temporarily while they wait for something better to come along; if entrepreneurship is not their end-goal, it is possible they have not focused on developing the entrepreneurial skills they need to run a business. In the following section, I look more closely at educational attainment in order to get a better sense of the actual ability of the entrepreneurs in my study and to determine to what extent, if any, this helps explain variation in growth aspirations levels.

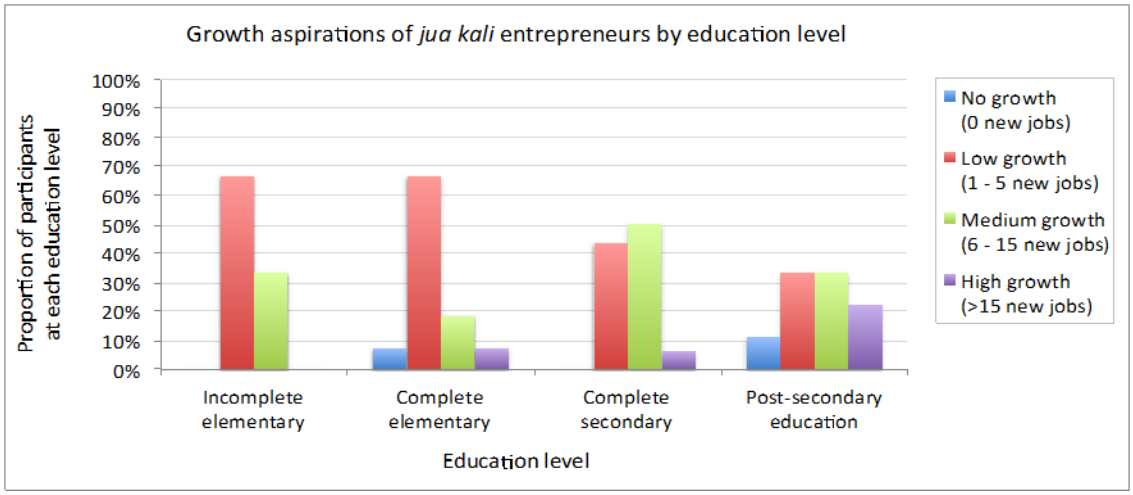
5.3.2 Growth aspirations and education level

When it comes to entrepreneurship and growth aspirations, an important ability-related variable to consider is education. This is perhaps even more so the case in developing countries, where differences in educational attainment are often stark. In Kenya, some parents who are able to pay private school fees send their children to elite private

academies, while the vast majority send their children to free public schools where classrooms are congested, facilities are dilapidated, and the quality of instructional delivery is often poor. Many children drop out before having completed even the most basic levels of education (Institute of Economic Affairs, 2015a). Since higher education can better equip entrepreneurs to succeed in business and thus, to seek growth, I examine educational attainment as an independent variable that may affect growth aspirations.

Among the 58 youth entrepreneurs I interviewed, I found significant variation in education levels: 10% did not complete elementary school (incomplete elementary); 47% completed elementary school but not secondary school (complete elementary); 28% completed secondary school but never reached college or university (complete secondary); and 15% attended either college or university (post-secondary education). As Figure 10 shows, the proportion of entrepreneurs with medium and high growth aspirations is highest among those with complete secondary and post-secondary education.

Figure 10: Education levels and growth aspirations



Source: Author, 2016

One noteworthy result is prevalent when comparing the growth aspirations of those entrepreneurs who finished elementary school and those who finished secondary school.

Figure 10 shows that more entrepreneurs with an elementary level education have only low or no growth aspirations (74%), compared to just 44% of those with a secondary education. In other words, more entrepreneurs who completed secondary school have medium or high growth aspirations, compared to those who did not. Thus, secondary-school attainment does seem to have a positive impact on growth aspirations.

Beyond secondary school, it is difficult to generalize because only 9 entrepreneurs fall into the post-secondary education group. Thus, although one could derive that more of the entrepreneurs who attend college or university express high growth aspirations compared to those with lower levels of education, in reality it was only 2 participants who expressed this. Similarly, while the post-secondary group also seems to have the highest proportion of entrepreneurs with no growth aspirations, it is actually only one individual in the group who has no growth intentions for their business. Nonetheless, 44% of entrepreneurs with post-secondary education (4 out of 9) expressed low or no growth aspirations, which is a fairly significant proportion. One possible explanation for this is that those with higher levels of education – beyond secondary school – are only running their *jua kali* business until a better opportunity presents itself. To assess whether or not this is the case, I took a closer look at those entrepreneurs with post-secondary education who have low or no growth aspirations. Do they really plan on leaving the business as soon as something better comes up? Or is there another explanation for why these highly educated entrepreneurs do not have higher growth aspirations?

First, I return to Kinaya as an example, who I introduced earlier in section 5.2.5. Kinaya has a university education and relatively low growth aspirations (5 additional jobs in the next five years) compared to other entrepreneurs in this study with medium and high

growth aspirations. For Kinaya, her business is her priority. Although she is applying for IT technician jobs, her plan is to use that employment income to grow her business: *"Taking another job will give me the security and then this business can grow, because I'll have more money to invest in it."* What is clear from Kinaya's example is that she does not have lower aspirations because she is only running this business until something better comes up. Even if she gets another job, she will not leave this business.

So why are Kinaya's growth aspirations not higher, given her university-level education? One possible explanation is that Kinaya already has five employees who produce the school uniforms, so her firm has already grown somewhat since she started. Therefore, adding 5 more employees might be her end goal with this particular business. Another possibility is that once Kinaya acquires another job and has more capital to invest in the business, her aspirations will change. It is possible, for instance, that she was simply being very realistic about her 5-year aspirations; if I had asked her about her 10-year growth aspirations, they may have been much higher. Overall, I did not get the sense from Kinaya that she was uninspired or unwilling to expand the business further. She seemed to have very good business sense, so I believe she was just being realistic about what to expect over the next five-years.

Another entrepreneur with a post-secondary education and low growth aspirations is Julian, a young man who studied computers in college. Unable to find other work, he started a small business selling school uniform items just like his grandmother, mother, and sister had before him. While he is enjoying the challenge of business and will likely have no other option but to continue pursuing it, Julian would take another job if he had the opportunity. Thus, for him, it seems that his low aspirations for growth can be partly

attributed to the fact that he is doing this temporarily, in the hopes of something better coming along. Another potential explanation is that he only recently started this business and currently employs only himself, so adding 4 additional workers in the next five years represents a significant increase in the size of his business. While it is low in comparison to other entrepreneurs' aspiration levels, it is not necessarily 'low' for Julian.

In Uhuru Market, I came across another *jua kali* owner-manager with some college education but absolutely no growth aspirations for her business. She was a young women who had dropped out of college because she was uninspired and then took over her mother's clothing business. She was only involved in this business as a favour to her mother and was not very entrepreneurial in spirit. She had no plans to expand her firm or to create employment for others. I got the sense that she received a lot of support from her mother and had little need to earn an income. Similarly, the only other *jua kali* youth I interviewed who had a post-secondary education and low growth aspirations was another young woman in the tailoring industry who had studied food production in college. She had experience working in a kitchen but did not enjoy the work environment. When she got married, she left her job and started to run a small tailoring business out of her mother's shop in order to contribute to her household income. She has very modest expectations for her business, and although she hopes to be a big shop owner someday, in the next five years she aspires to add just one additional worker. In her case, the lack of connection between her educational attainment and growth aspirations can be attributed to the fact that tailoring has nothing to do with food production. Therefore, even though she has a post-secondary education, it is not related to her current business and thus seems to have no effect on her level of growth aspirations.

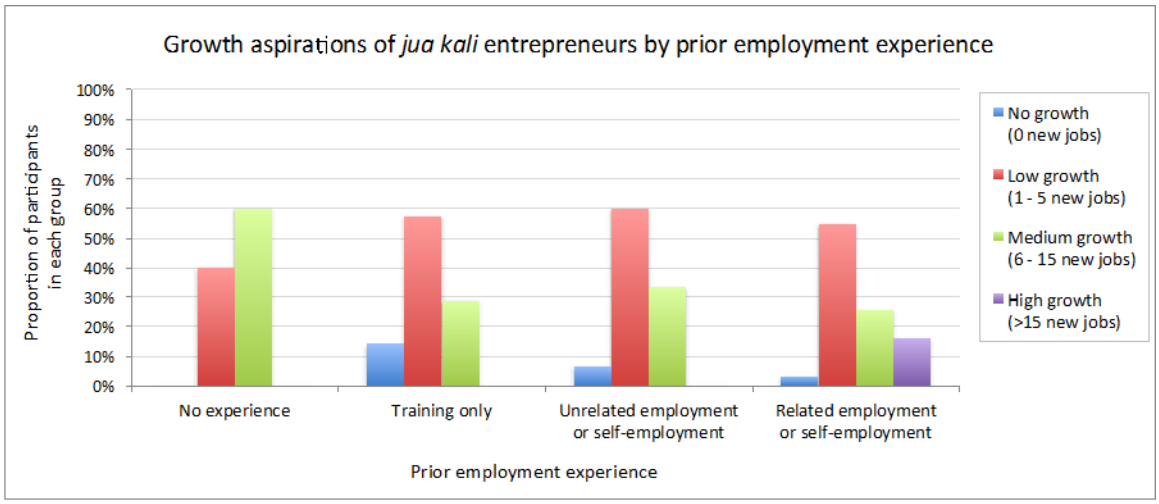
5.3.3 Previous business and employment experience

Another important element when it comes to entrepreneurial ability is experience (Wiklund & Shepherd, 2003), including prior business experience and prior employment experience. Seventy-eight percent of entrepreneurs in my study indicated that this is their first time running a business, while 22% have run businesses before. Between these two groups, those who have owned another business before expressed proportionally higher growth aspirations. For instance, 23% of those entrepreneurs with prior business experience have high growth aspirations, compared to just 4% of those without such experience. At the other end of the spectrum, only entrepreneurs who have never owned a business before expressed no growth aspirations. These results seem to indicate that, to a certain extent, prior business experience may help explain some of the variation in the growth aspirations of young *jua kali* entrepreneurs. However, the effect is small; since a broad range of aspirations is cited in both groups, this suggests that having owned a prior business does not explain most of the observed variation in growth aspirations.

To examine the effect of relevant employment experience, I asked participants to tell me about any former employment opportunities they have had. I then determined whether any of these previous experiences were related or unrelated to their current business. My analysis suggests that the majority of participants (53%) were either previously employed or self-employed in work that relates directly to their current business. In most of these cases, they were employed in other *jua kali* businesses, working for someone else but carrying out the same tasks. My data shows that all of the participants with high growth aspirations have related prior employment experience or self-employment experience (see Figure 11). Notably, however, the majority of entrepreneurs with this type of experience

have low growth aspirations. Thus, while my findings suggest that relevant experience may be a necessary condition for higher levels of growth aspiration, it is not sufficient.

Figure 11: Employment experience and growth aspirations



Source: Author, 2016

Although prior experience does not explain most of the observed variation in growth aspirations, the fact that most young *jua kali* entrepreneurs included in my study were previously employed in similar *jua kali* work is an important finding. It helps to tell the story of where these entrepreneurs get their footing, which reveals an important dynamic: most young entrepreneurs operating in the j*ua kali* manufacturing sector start off working for someone else in the same sector. They receive training and then work for several years, learning the business and saving up enough to start their own business. Combined with the finding that there is an underlying desire among participants to help others by employing them and providing training, these results uncover a potential area for effective policy intervention: as I will discuss further in Chapter 6, there may be room for policies that can incentivize entrepreneurs to take on trainees, teaching them the ways of the business while training them in the skills they will need to start their own. This would not only reduce

unemployment by creating more jobs for youth, but it could also fuel future entrepreneurship and thus boost a cycle of employment creation.

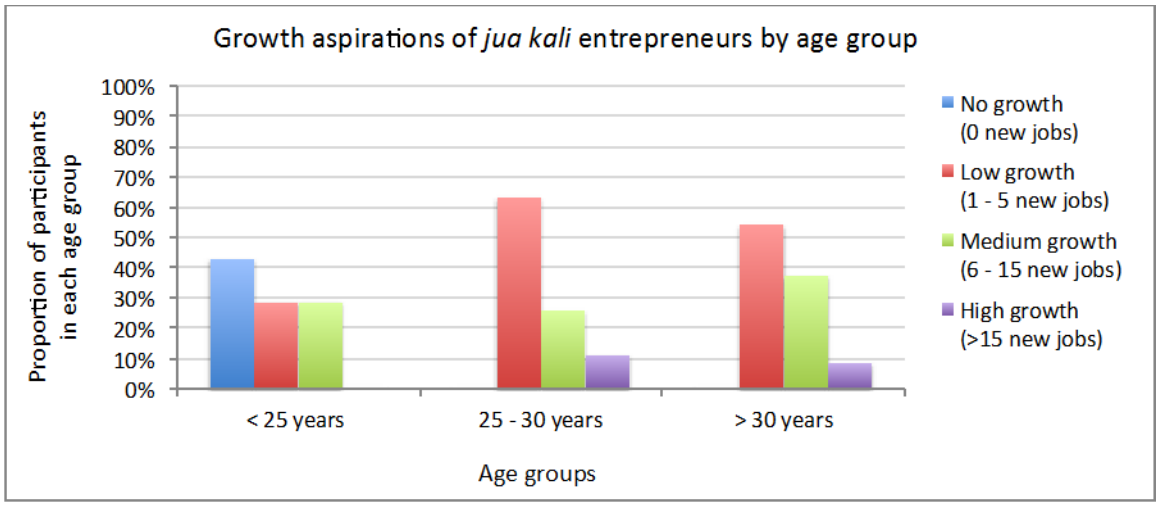
5.3.4 Age of the entrepreneur

In the previous sections, I took a closer look at the role of experience and education, two elements that are acquired over time. Similarly, there are other factors that entrepreneurs develop over time, such as maturity, life experience, and social networks, which can affect their entrepreneurial ability to pursue firm growth. In an attempt to capture these other ability-related factors, I consider the age of the entrepreneur as a proxy. Although I recognize that the entrepreneur's age does not necessarily reflect higher levels of maturity or more significant life experience, I felt it was an important indicator to at least consider. The literature suggests that the age of the entrepreneur is an important predictor of high growth aspirations, with higher growth more prevalent among younger business owners (Hart et al., 2010), such as those included in my study. Although all of the entrepreneurs in my sample are young, I do capture a wide enough age range to carry out a comparison between the younger and older youths. The average age of my participants is 29 years and the median age is 30 years. Fifty-five percent of participants are between 30 and 34 years of age and only 12% are younger than 25 years old.

As Figure 12 shows, there seems to be a significant pattern between age and growth aspirations: those under the age of 25 years tend to have lower growth aspirations when compared with older participants. In the older age groups, there are proportionally fewer entrepreneurs with low or no growth aspirations. While the majority of entrepreneurs have low or no growth aspirations, regardless of age, the older participants tend to have higher

aspiration levels, on average. Significantly, the only participants who have zero job growth aspirations and do not plan to employ more people in 5 years are under the age of 25 years.

Figure 12: Entrepreneurial age and growth aspirations



Source: Author, 2016

These results confirm that age does help explain some of the variation in growth aspirations, since all of the older entrepreneurs aspire to grow their business, at least modestly. While this may have to do with greater entrepreneurial ability acquired over time, of course it may also coincide with other factors that can come with age such as more developed social relations or business connections. I discuss the significance of such opportunity-related factors in section 5.5 of this chapter.

5.3.5 Conclusion: Entrepreneurial ability and growth aspirations

Based on the results presented in this section, I suggest that Hypothesis 2 is at least somewhat true: *ability-related characteristics are associated with higher growth aspirations* amongst *jua kali* entrepreneurs. In particular, it seems that relevant employment experience is an important condition for higher growth aspirations. Age and prior business experience also appear to have a slight positive effect. Moreover, there is evidence to suggest that secondary education makes a difference: those who complete

secondary school have higher growth aspirations than those who only complete elementary school. In the following section, I present results regarding the entrepreneurs' need for growth, to determine whether need-related variables also help explain the observed variation in aspirations.

5.4 Need and growth aspirations

The literature suggests need-related variables can help explain variation in growth aspiration levels, with greater need for growth associated with higher growth aspirations. As previously determined, almost all of the participants in my study run their business out of necessity, because they have no other options for earning an income. Moreover, as I have shown, among these necessity-driven entrepreneurs there exists a wide range of growth aspiration levels. In this section, I examine the entrepreneurial need to move beyond the current level of operation and pursue growth. As my conceptual framework suggests, this need for growth is likely an important driver of growth aspirations. To assess whether or not this applies in the case of *jua kali* youth entrepreneurs in Nairobi, I asked participants about four specific characteristics: their daily profits, the age and size of their business, their level of economic satisfaction, and the number of people who depend on their income. I explain in each of the sections that follow how these factors relate to entrepreneurial need and examine whether or not they seem to influence growth aspirations.

5.4.1 Daily profits and growth aspiration levels

It is logical to assume that the entrepreneur's *need* for growth will be influenced by the current size of the business. Someone who is earning more may not have the same need to seek growth as someone who earns less, and may consequently have lower growth aspirations. As Davidsson (1991) proposes, "the larger (the firm) is, the more likely are

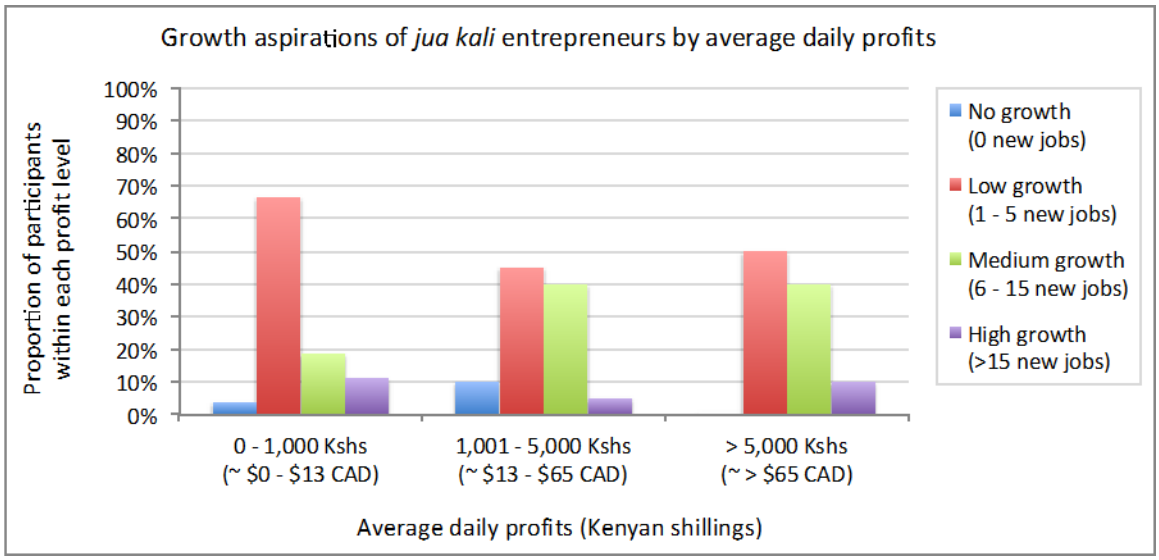
profits to be high enough to ensure a satisfactory standard of living for its owner-manager(s)" (408). To verify the validity of this relationship, I attempt to identify any connection between entrepreneurs' average daily profits and aspirations for growth.

My results suggest that for most *jua kali* entrepreneurs, daily profits vary widely. When I asked participants about their daily profits, the vast majority started off by telling me "*it depends,*" since some days they may earn a lot while other days they can earn nothing at all. Most entrepreneurs indicated a range of possible profits, often starting at zero, explaining that some days, weeks, or months are much better than others. For certain participants it was too difficult to estimate how much they make on average each day. Some could only provide an estimate of how much profit they earn in a month, while others gave me a weekly approximation. What became very clear throughout this process was that most *jua kali* entrepreneurs have to try to budget wisely, because they might sell a lot one day and then go several days without selling anything. For those whose products are based on seasonal activities, they can go entire seasons without making any profit. During low seasons, they replenish their stock, sometimes having to take loans from local micro-finance groups – called *chamas* – in order to make it through.

In order to examine whether there is any co-variation between daily profits and growth aspirations, I converted all of the different profit ranges into comparable average daily profit levels. The majority of participants in my study (47%) have average daily profits of 0 – 1,000 Kenyan shillings, or approximately $0 – $13 Canadian dollars. Thirty-five percent earn anywhere from 1,000 – 5,000 Kenyan shillings per day (approximately $13 - $65 CAD), while 13% earn more than 5,000 (or $65 CAD). Notably, the results indicate that profit levels are fairly consistent across sub-sectors and gender. As Figure 13 below

shows, as daily profit levels increase, there are proportionately fewer entrepreneurs with low or no growth aspirations.

Figure 13: Average daily profits and growth aspirations



Source: Author, 2016

Among entrepreneurs making less than 1,000 Kshs per day, 71% have low or no growth aspirations. In comparison, the proportion of those with low and no growth aspirations makes up just 55% of those who earn 1,001 - 5,000 Kshs and 50% of those making more than 5,000 Kshs per day. Interestingly, all of the most profitable entrepreneurs have at least modest aspirations for growing their business, since no one earning more than 5,000 Kshs per day has zero growth aspirations.

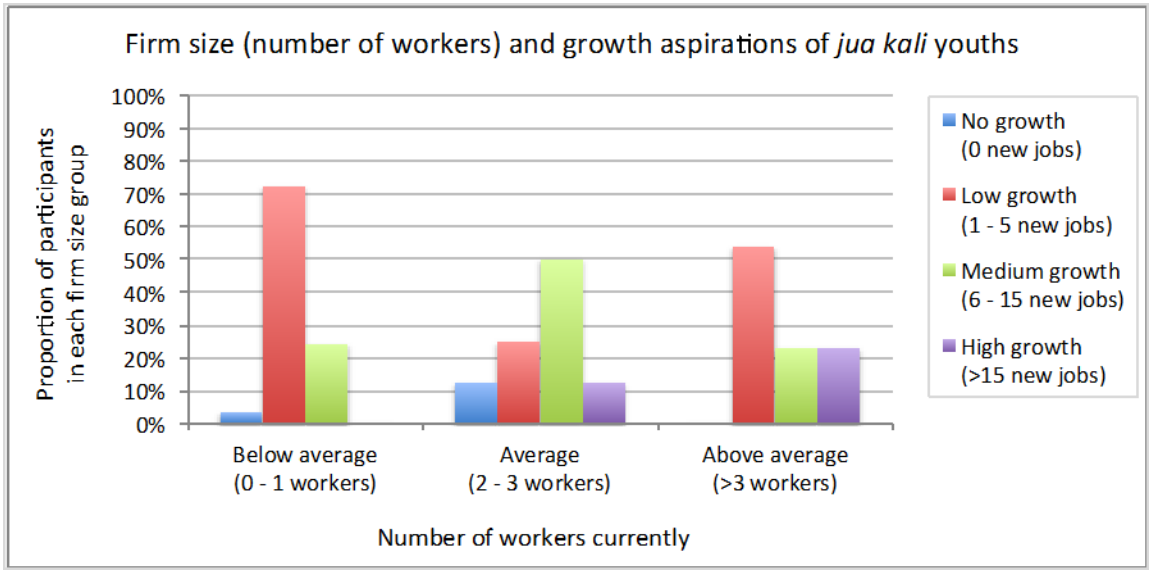
These results seem to suggest there is a positive relationship between profit levels and growth aspirations among *jua kali* entrepreneurs, which is opposite of what the literature suggests. It should be noted, however, that although the highest profit group seems to have the smallest proportion of entrepreneurs with no and low growth aspirations, the lowest profit group appears to have a comparable proportion of entrepreneurs with high growth aspirations. This implies that the positive relationship is not particularly strong, as there are

still entrepreneurs at the lower end of the profit spectrum who seek high growth for their firms. One possible reason we do not observe a strong negative relationship between profit levels and growth aspirations is that all of the *jua kali* youths in my study are micro-entrepreneurs. Thus, it may be among larger firms that we would start to see this trend.

Another way of measuring the size of a firm is by the number of workers it currently employs. This is a particularly relevant indicator in this study, since growth aspirations are measured by the number of additional workers the entrepreneur aspires to employ. Therefore, it is important to look at the effect the current number of workers may have on the projected number of future workers. For instance, is there a saturation point within *jua kali* enterprises (i.e. 5 employees) at which time entrepreneurs will no longer be willing to hire more workers? If there is, we could expect to see that the more workers the entrepreneur already has, the fewer they will aspire to add in the future. Similarly, having more workers may reflect, as Davidsson (1989a) suspects, less 'need' to pursue further growth, as it is more likely that larger firms with many workers have already reached a condition where their basic needs are being met.

The average number of workers (both casual and permanent) employed by the entrepreneurs in my study is between 2 and 3. Twenty-eight percent of participants fall into this 'average' category, employing either 2 or 3 workers. A further 50% of participants fall into the 'below-average' category, employing 0 or 1 workers, while 22% employ more than 3 workers and are thus labelled 'above average' for the purpose of this analysis. Figure 14 shows how the entrepreneurial growth aspiration levels look within each group.

Figure 14: Number of workers (currently) and growth aspirations



Source: Author, 2016

It appears as though those entrepreneurs with the highest number of workers currently are also those who have the highest aspirations for growth. On the contrary, it seems that on average, those entrepreneurs with just 0 or 1 workers have the lowest growth aspirations. Notably, none of the entrepreneurs in the 'below average' group have high growth aspirations, while none of the entrepreneurs in the 'above average' group have no growth aspirations. What these results seem to suggest is that once again, we do not see the expected negative relationship between business size and growth aspirations. In fact, there appears to be a slightly positive relationship between these two variables. This suggests that even those entrepreneurs who have already achieved some growth and are able to employ more workers still aspire to further develop and expand their businesses. Similar to the effect of profit levels, it is possible that that the threshold for firms with many workers is too low to capture the expected negative trend. Alternatively, it is possible that there is no connection between the size of *jua kali* firms and their entrepreneurs' need for growth, or simply that 'need' is not a major determinant of their growth aspirations.

5.4.2 Economic satisfaction

The notion behind the effect of business size, as Davidsson argues, is that those with bigger businesses are more likely to be satisfied with the current level of income and the standard of living it provides. To get a clearer sense of the effect of economic satisfaction, I asked participants: "Do you earn enough to cover your needs?" I used this question to measure each participant's *perceived* need for growth, and then looked for any co-variation with growth aspirations. Similar to the influence of business size, I expected those who do feel that they earn enough to have lower growth aspirations than those who are not currently earning enough. In other words, I expected less economic satisfaction to reflect a higher *perceived* need for growth, thus having a positive effect on growth aspirations.

My results show that the majority of entrepreneurs (67%) in my study feel they do *not* earn enough to cover their basic needs and daily upkeep, while only 15 entrepreneurs (26%) feel that they do. However, I find no discernable relationship between this level of economic satisfaction and growth aspirations. This may indicate that perceived *need* for growth has no influence on growth aspirations; however, it may also indicate that the *jua kali* entrepreneurs I spoke with have very different views about what it means to be earning "enough," as well as different views on the standards of living they are willing to accept. For instance, someone may be earning just enough to cover their daily needs, but not enough to live comfortably or to save. They may have answered yes, indicating that they do feel they earn enough, while another person in the same economic position may have answered no. Thus, someone who said he or she is earning enough to cover his or her daily needs could actually have a higher perceived need than what my findings suggest. In future

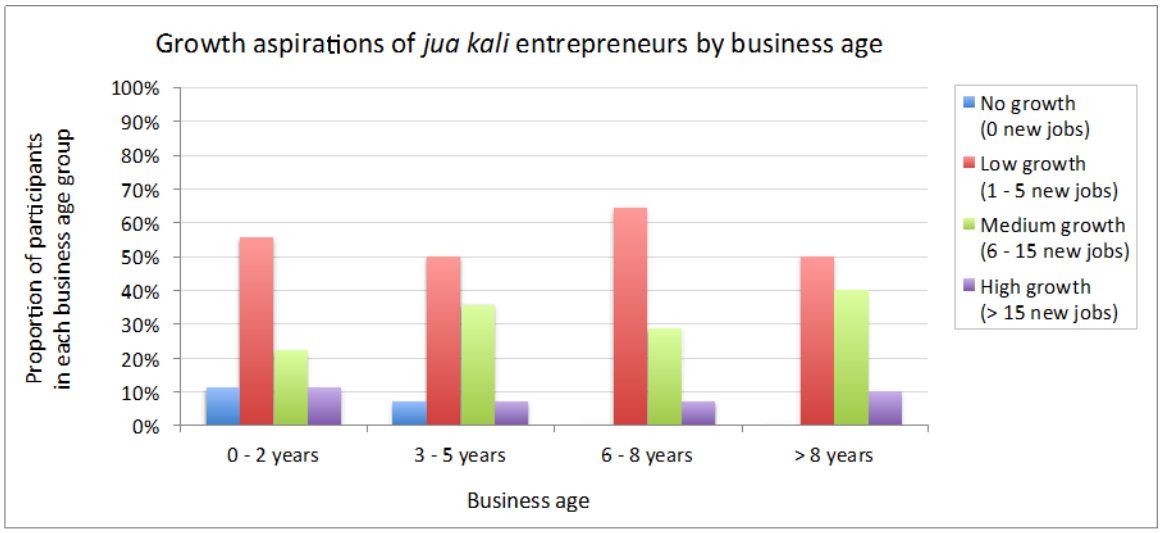
research, different measures of economic satisfaction could perhaps provide a more accurate portrayal of entrepreneurs' perceived need for growth.

5.4.3 Age of the businesses

The literature on firm growth suggests there is an inverse relationship between firm age and growth (McPherson, 1996; Evans, 1987). As Davidsson suggests, "the older the firm, the more it has proven viable doing what it currently does" (Davidsson, 1991). The logic is that older firms can be expected to have lower growth aspirations; they are more likely to have already reached a size that meets their needs and desired standard of living, and therefore have less *need* for growth.

Most entrepreneurs in my study (32%) have been running their businesses for 2 years or less, while a quarter have been in business for 3 – 5 years and another quarter have been running their business for 6 – 8 years. Only 18% have been running their business for more than 8 years. In total, more than half of the entrepreneurs (57%) have been running their business for 5 years or less. As Figure 15 shows, there does seem to be a connection between the age of the business and the entrepreneur's growth aspirations. Namely, it is only among those entrepreneurs who have been operating their business for 5 years or less that no growth aspirations are cited. Although it appears that a larger proportion of the oldest businesses express medium (40%) and high (10%) growth aspirations, even some of those with the youngest businesses (10%) have high growth intentions.

Figure 15: Business age and entrepreneurial growth aspirations



Source: Author, 2016

An important finding that arises from these results is that the entrepreneurs with older firms still aspire to grow their businesses. In fact, among those entrepreneurs who have been running their business for more than 8 years, 50% have low growth aspirations while 40% have medium level aspirations and 10% express high aspirations. This goes against what prior studies have suggested about older firms no longer needing to seek growth because they have already proven viable doing what they currently do. These results may suggest that in a developing-country context, business age is not a good indicator of the entrepreneurial need for growth. If entrepreneurs with older businesses are just as likely to seek firm growth as those with younger businesses, this could indicate that business age does not necessarily equate to business success and sustainability, therefore not resulting in a lesser need among owners to pursue firm growth. However, there are several other possible explanations for this unexpected trend. For instance, it is possible that those entrepreneurs with older business who have been around longer may also be more aware of 'development' agendas and thus may have been more inclined to express higher growth aspirations if they felt that I might be able to help them. Although I clearly indicated from

the outset that this research was for academic purposes only, there may have been some bias in their responses. Moreover, as I will discuss further in Chapter 6, it could also be the case that my threshold for an "old" firm is too low. Since this study focuses on youth, I was unable to capture a very wide range of business ages. If I had been able to include even older firms who have been in business much longer, the expected negative trend between business age and growth aspirations may have emerged.

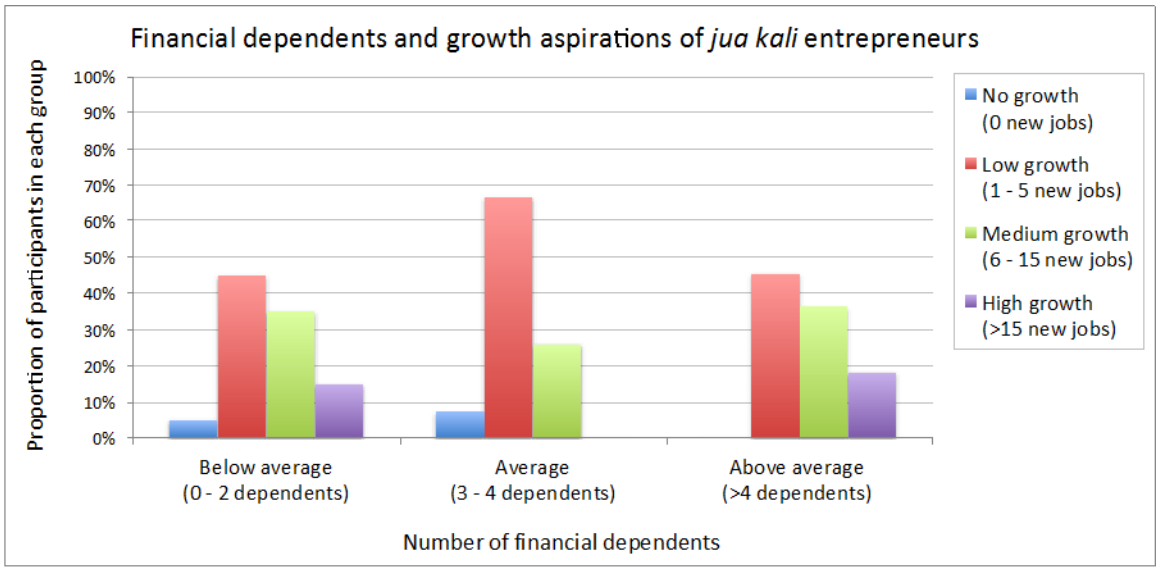
5.4.4 Number of dependents

Since entrepreneurs are often embedded in households (Carter, 2011), meeting household needs and family obligations can influence business decisions and strategies. Within the context of family and the household, the addition of financial dependents can lead to increased growth aspirations (Davis & Shaver, 2012). The presence of more dependents, including children, can affect the approach to business, since it "may increase an entrepreneur's perception of the minimum acceptable financial performance of a new venture and thus increase one's intentions for firm growth" (Davis & Shaver, 2012, 498). Thus, since ensuring the daily survival of household members is a priority, the addition of financial dependents may lead to higher business growth aspirations, especially for those who are currently not earning enough to meet their needs.

The young *jua kali* entrepreneurs in my study have anywhere from 0 to 9 financial dependents. The average number of dependents is 3.4, with 47% of participants having either 3 or 4 dependents. While many of these dependents are the entrepreneurs' own children, it was also common for participants to be financially responsible for their nieces or nephews, younger siblings, and sometimes even their own parents. Only 19% of participants have more than 4 dependents, and 34% have fewer than 3 dependents. When

participants are grouped together based on their number of dependents – average (3 to 4), below average (less than 3), or above average (more than 4) – there appears to be no strong relationship between this number and their growth aspirations. As Figure 16 below shows, the only obvious observations are that no entrepreneurs with more than 4 dependents have zero growth aspirations, and no entrepreneurs with 3 to 4 dependents have high aspirations.

Figure 16: Number of financial dependents and growth aspirations



Source: Author, 2016

Although the evidence is rather thin, Figure 16 seems to suggest that a u-shape relationship may exist between the entrepreneurs' number of dependents and growth aspirations. It appears as though the highest growth aspirations are found among those with very few dependents or very many dependents, while the lowest aspirations are found among those in the middle. One possible explanation for this is that those entrepreneurs with fewer financial dependents have less family responsibilities and can thus invest more into their businesses, leading them to have higher aspirations for growth. At the other end of the spectrum, it is possible that those with many dependents may have a greater need for growth – and thus, higher growth aspirations – since they have more people to support.

5.4.5 Conclusion: Entrepreneurial need and growth aspirations

Overall, it is difficult to conclude whether Hypothesis 3 is true in the case of *jua kali* youth entrepreneurs in Nairobi, as it is unclear whether *greater need for business growth is associated with higher growth aspirations*. For the most part, the variation in growth aspirations observed in my study does not seem to be explained by the need-related variables I assessed. In fact, the results seem to suggest that those entrepreneurs who one would expect to have less need for growth actually have higher growth aspirations. For instance, those entrepreneurs with higher profit levels (and arguably, less need for growth) seem to have slightly higher growth aspirations than those with lower profit levels (and thus more need for growth). Similarly, my results show that entrepreneurs with older businesses (and presumably less need for growth) actually have very similar levels of growth aspirations as those entrepreneurs with younger businesses.

While this evidence seems to counter the expected trend that those with greater *need* for growth have higher growth aspirations, the results regarding the effect of financial dependents appear to suggest the opposite. As I discussed above, it seems that there may be a connection between having many financial dependents and having higher growth aspirations. This could reflect the notion that those responsible for the survival of more household members have a greater need for growth. This relationship is not linear, however, which complicates this conclusion. It appears that those with the least number of financial dependents also tend to have greater aspirations for growth. As I have suggested, the high growth aspirations among those with fewer dependents and arguably less "need" for growth may represent enhanced flexibility to use profits freely and to invest back into the business. Thus, the high growth aspirations of those with fewer financial dependents

may be less related to "need" and more related to "opportunity." I now turn my attention to those variables having more to do with opportunity, to see if greater opportunities for growth are associated with higher entrepreneurial growth aspirations.

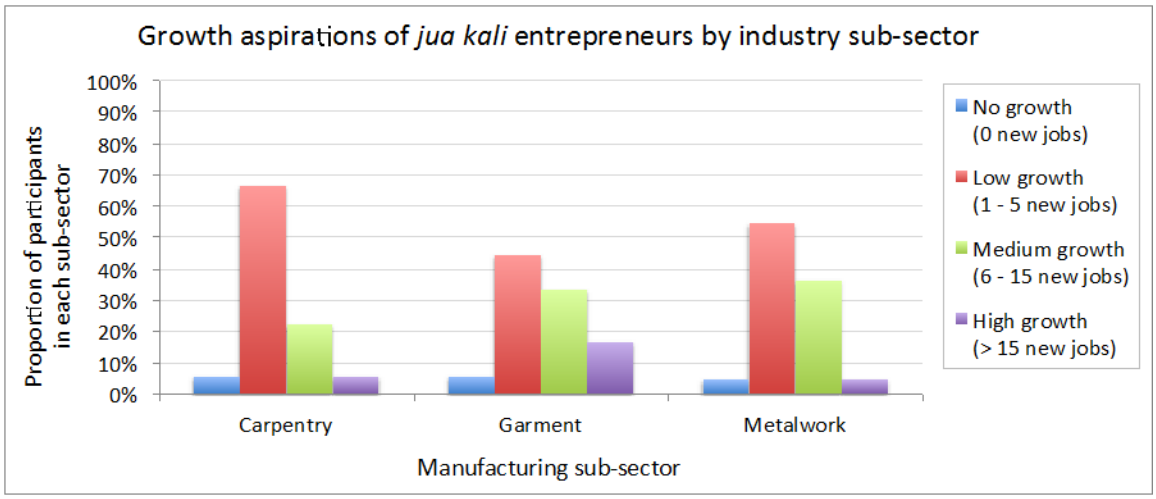
5.5 Opportunity and growth aspirations

Under the broader concept of *opportunity*, various characteristics were assessed, including: industry sub-sectors; geographic location; challenges and obstacles; social capital; and access to finance. By examining variation among these different variables, I generate insights into whether greater opportunities for enterprise growth are associated with higher aspirations for growth among *jua kali* youth entrepreneurs. As the results below demonstrate, it appears as though certain opportunity-related characteristics are indeed related to more ambitious growth aspirations.

5.5.1 Industry sub-sectors and growth aspirations

When it comes to business expectations and aspirations for growth, does it make a difference which sub-sector the entrepreneur is engaged in? According to my results, it does: on average, those entrepreneurs engaged in the garment sub-sector have higher growth aspirations than those involved in the carpentry and metalwork sub-sectors. In total, I interviewed 22 entrepreneurs in the metalwork sub-sector, 18 in carpentry, and 18 in garment production. Based on my analysis, 72% of those in the carpentry sub-sector and 59% of those in metalwork have low or no growth aspirations, while only 50% of participants in the garment sub-sector have low or no growth aspirations (see Figure 17). Moreover, in the garment sub-sector, 17% of participants expressed high growth aspirations, compared to just 6% and 5% of those in the carpentry and metalwork sub-sectors, respectively.

Figure 17: Growth aspirations by manufacturing sub-sector



Source: Author, 2016

These results suggest that opportunities for growth are greater within the garment sub-sector. In particular, there may be more 'room for growth' within the garment sub-sector – an important concept included in Davidsson's (1989a) model. In his study of Norwegian entrepreneurs, Davidsson found that the entrepreneurs' perceived market room for expansion was an important aspect of perceived opportunity, and an important determinant of growth motivation. Given the high-level of competition within j*ua kali* industries, it is logical to assume that 'room for growth' would have a significant influence on entrepreneurial growth aspirations among participants in my study. Although I did not explicitly ask participants about their perceptions of room for growth, this theme came up throughout the data collection process, particularly with regards to their biggest challenges and their future business plans. I discuss these topics further in the following section.

5.5.2 Challenges, competition, and growth aspirations

Many young entrepreneurs expressed challenges having to do with the lack of room for growth within their given sector. In particular, competition and lack of customers were the most commonly cited challenges after lack of capital/income. Other major challenges

expressed by both male and female entrepreneurs include production costs/issues, low seasons, poor work conditions, and lack of customers. Notably, only 6% of entrepreneurs in the garment sub-sector said competition was their biggest challenge, while it was the main challenge for 36% and 17% of those in the metalwork and carpentry sub-sectors, respectively. In the garment sub-sector however, it was more common for entrepreneurs to express lack of customers and low seasons compared to the other industries. Despite high levels of competition, few young business owners (14%) recognized the need to offer something unique in order to overcome competition. The most common strategies for beating out competitors include offering good quality (38%) and having good customer relations (26%).

My results suggest that in order to cope with competition, many *jua kali* entrepreneurs are looking to expand outwards, starting new businesses or branches outside of their current market. As one business owner in the Kamukunji cluster explained, *"Here, there are competitors, and so many people are doing that business. If you go somewhere else, it would be different. There would be less competitors."* This seemed to be a predominant belief among the youth in my study. Nearly half of the individuals I interviewed told me they were planning to start some type of new business, typically in addition to running the current one. As one entrepreneur who produces and sells metal trowels told me: *"When I get more money, I will open more businesses all over the country, selling different products. I know I will attract more customers from different places, because here, competition is very high."* Of those who are not planning to start an entirely new business venture, the majority are looking to at least start a new branch or outlet. Many entrepreneurs told me they plan to open at least one additional branch in another part of Nairobi or in another city

in Kenya. This was particularly true for those in the metalwork sub-sector, of whom nearly 60% expressed intentions of adding a new branch or outlet, compared to just 33% in both the garment and carpentry sub-sectors. Notably, very few youth in my study already have other branches.

These findings suggest that the apparent and perceived lack of 'room for growth' in the *jua kali* manufacturing sector may be a limiting factor when it comes to growth aspirations. While the results show that competition is a major challenge for many young entrepreneurs, it seems to be less of a challenge in the garment sub-sector where growth aspirations are slightly higher. Moreover, it seems that at least compared to the metalwork sub-sector, fewer business owners in the garment industry are looking to expand outwards by opening new branches or outlets. This could be because in the garment sub-sector, particularly in dealing with school uniforms, there is more room for upwards growth; successful businesses can eventually register and then sell to schools directly. As one youth explained, informal businesses cannot supply directly to schools:

> *When you want to get orders from schools and other places, they really want to get somebody who is registered or something like that. So when they ask for those papers, sometimes you don't have them. So the people who have those papers, sometimes even they come to buy from us. They come to buy from us and then they take them there. But you going directly to the place where they got that order, you can't get it.*

Thus, many of these micro-entrepreneurs supply school uniform items to larger, registered businesses who then supply to the schools. These vertical market linkages may help explain why participants in the garment sub-sector are not as interested in expanding outwards. Another possible reason that participants seem to be less interested in branching away from the garment markets is that Uhuru and Gikomba are good business locations; these clusters are central and well-known, thereby attracting more customers. As one participant

explained when I asked why she chose to set up shop in Gikomba Market: *"It's the flow of customers. The flow of customers is really good. Actually, I don't think I can go home without something."* Furthermore, most of the shops in these markets are set up within permanent structures, which to some extent may limit over-saturation, since there is limited space within the buildings. By contrast, the Kamukunji metalwork cluster simply continues to expand outwards as more and more people find new space to set up shops. This drives up competition which increases the entrepreneurs' incentives to open other branches.

Operating within more permanent structures may also offer more security compared to those located in semi-permanent or temporary shelters. For young entrepreneurs in the Kamukunji *jua kali* cluster and along Juja Road, and to a lesser extent those in the Gikomba carpentry cluster along Nairobi River, the threat of being displaced or forced out by the government was a prevalent concern. This was expressed by several business owners as a reason for wanting to start other branches. For instance, one entrepreneur in Kamukunji told me: *"You know, here sometimes we get rumours that one day we will be evicted from here, and again having several branches gives you good money."* Voicing a similar concern, another business owner within the same cluster explained: *"It's not always good to put all eggs in one basket. There are rumors that the government can take this place, so it's good to have another side somewhere else."* Along Juja Road, the concern is the same. For example, one participant told me: *"I'm planning to open another branch somewhere else, especially back home in Muranga, because here our shops are on the road, and maybe the government may want to expand this road, so we will be affected*." Yet another youth in my study referred to this insecurity when she explained why she would take another job if she had the option: *"Because you know, this jua kali business, it can be demolished by*

the government because it's along the road and the government may decide to expand the road."

The majority of entrepreneurs (81%) in my study rent their premises, either from the owner or directly from the City Council, and only five participants say they actually own the space where their business is located. However, most of the land where these *jua kali* clusters have developed ultimately belongs to the government. Only 50 of the 245 *jua kali clusters* in Nairobi have title deeds for the land where they operate from (Otieno, 2016). Kamukunji and Gikomba were two of the original *jua kali* agglomerations where in 1986 the former President Moi promised free sheds and title deeds to those allotted spaces (King, 1996a). After this land was donated to the *jua kali* associations, the original artisans became the so-called "owners" of the stalls they were occupying. Over the years, they started to sell or rent out the property to other *jua kali* workers.

Most enterprises in these clusters, however, are set up outside the land area that was originally donated by President Moi. For instance, at the time of inception in 1986, there were just 370 artisans in the Kamukunji metalsmith cluster – today, there are upwards of 5,000. This expansion involved thousands of entrepreneurs building stalls on empty surrounding land; these artisans therefore operate on land outside the title deed. In most *just kali* clusters, where they do not hold the title deed to the land, this whole system of selling and renting pieces of land and stalls is based on informal land rights. As Lamba (2005) notes, alternative land rights have evolved in unregistered areas, including informal rights in informal settlements. In most *jua kali* markets, shed owners have ownership certificates which enable them to rent or sell the property. However, someone who "owns" a shed can easily lose that space if the government decides to clear the area. Since it is well

documented that lack of security of tenure affects the quality of the built environment (King, 1996), it likely also affects growth aspirations. My results support this claim.

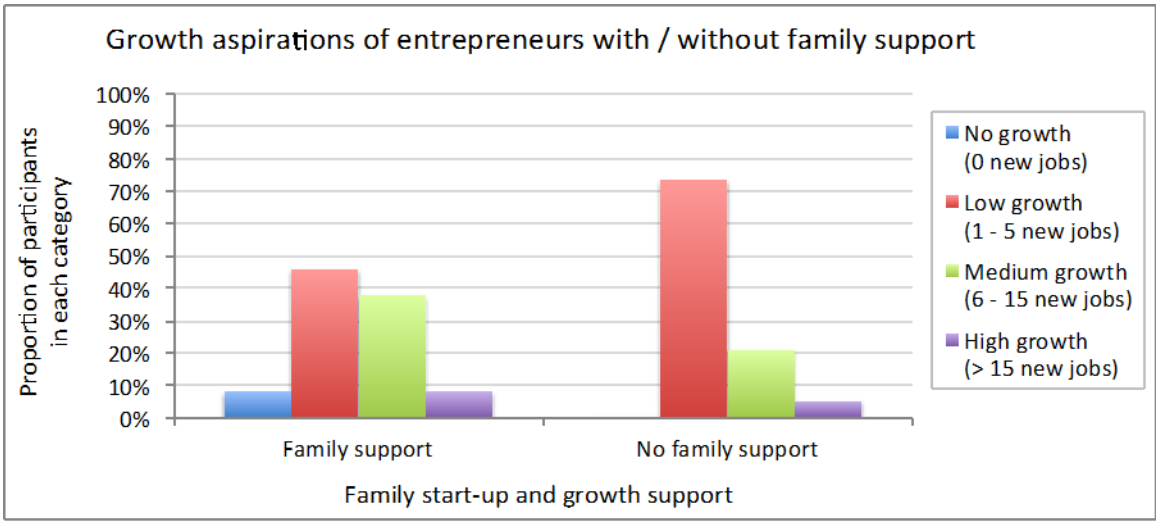
Overall, my findings indicate that certain factors related to the location of the business may matter when it comes to explaining why some entrepreneurs are more growth-oriented than others. For instance, depending on where the firm is set-up and the conditions of the premises in which it operates, the quality of property rights and security of land tenure may influence the extent to which entrepreneurs aspire to grow. Notably, it appears as though 'room for growth' within a given sub-sector or market is an important opportunity-related factor that seems to help explain why some young *jua kali* business owners have higher growth ambitions. It may therefore be useful to consider the constraining effect of limited space and insecurity within informal clusters when carrying out future investigations on entrepreneurial growth aspirations in developing-country contexts.

5.5.3 Social capital and growth aspirations

The importance of social connections for *jua kali* entrepreneurship was prevalent in my research with regards to accessing space for starting the business, financing start-up costs, saving and accessing loans, and providing motivation and mentorship. As I carried out interviews, it quickly became clear to me that social networks, and family members in particular, play a significant role in the businesses of these young entrepreneurs. For instance, the majority of participants acquired the grounds for their business through social connections with family members or friends. The response of one entrepreneur in the Gikomba carpentry cluster captures the type of story I commonly heard: *"I got that location because of my cousin. My cousin was here before, when I was in school, so when I came I joined him. You have to know someone so you can get the place…it's not easy."*

When I asked participants about how they started their business, social connections seemed to be equally important. In particular, the majority of respondents (65%) received some form of start-up support from their family members. They were either helped with capital or stock, or in some cases they took over the business from another family member. It is worth noting that those entrepreneurs who had family start-up support also seem to have slighter higher growth aspirations. As Figure 18 shows, fewer entrepreneurs with family support have low growth aspirations, compared to those participants who did not have support from their family when they started their business.

Figure 18: Growth aspirations and family support



Source: Author, 2016

This apparent trend could suggest that entrepreneurs from poorer households have lower growth aspirations than those from wealthier households, if family support is viewed as a proxy of household wealth. However, I was unable to collect comparable data on household income, specifically. Of course, there are likely other reasons for not having any family support than simply wealth – for instance, it is possible that certain entrepreneurs do not have any family, or that they do not have a good relationship with their parents or siblings. For some, it seemed that they simply did not want to seek support from their

families: *"I would not like to bother my parents a lot because they are old, so I am just trying to save by not seek any financial help."* Since there is reason to believe the presence of family support may have an impact on entrepreneurial growth aspirations, this would be an interesting factor to consider in future research. Notably, 40% of participants in my study have or had entrepreneurial parents or guardians, yet this does not appear to be linked with growth aspiration levels. Only 10 participants (17%) said no one else in their family owns a business, while the vast majority have at least one or two other entrepreneurial family members. Again, there is no observable connection between the number of other entrepreneurial family members that participants have, and their growth aspirations.

One way that social capital can influence an entrepreneur's opportunity for growth is by facilitating their access to different markets and customers. To get a better sense of this effect, I asked participants to tell me more about where they sell their products, who their customers are, and how they access their supplies. It seems that most of the participants in my study are not linked to broader markets outside of their *jua kali* clusters. Typically, these young entrepreneurs buy materials from within the same market or in a nearby market and sell to customers who are passing by. They commonly sell to individual customers but sometimes they take orders for products in bulk. When they receive big orders that they cannot fill on their own, they share the order with other business owners nearby. Most participants told me that they have a particular group of friends or co-workers who they tend to work with more than others, sharing big orders and also tools and supplies.

Since ethnicity continues to play a role in Nairobi today (there are more than 40 different ethnic groups in Kenya), I sought to examine the extent to which ethnic relations influence the opportunities available to entrepreneurs. Thus, I asked participants how they

know the other people in these work groups, probing to see whether there are any ethnic relations involved. Several participants were quick to tell me they are not of the same ethnic identity: "*No, we are many tribes here and we work together.*" However, a few told me that it is still quite divided and that they work mostly with people from the same homestead. As one entrepreneur explained: "*Yes, we have a group here. We are from the same tribe, whereby we help each other when we have a problem.*" Cautious that it may be inappropriate as an outsider to openly ask participants about their ethnic identity, I instead asked them about their place of origin. As Whitaker and Inyanji (2015) note, "given the geographic concentration of most ethnic groups in Kenya, analysts frequently use respondents' county of origin as a proxy for ethnicity" (10). Although I recognize this is not a perfect proxy, most of Kenya's 47 counties do have a predominant ethnic group (Whitaker & Inyanji, 2015). Nonetheless, I did not find a relationship between place of origin and growth aspirations among participants in my study. However, one participant shed light on how ethnic divisions may impact opportunities for growth in Nairobi:

> *You know in Kenya we are different tribes – maybe Kalenjin, Kikuyu… So maybe my idea was to go and open a new shop in Kasarani, but there's another tribe there. Maybe they can say, 'no, you are not from our tribe'. Or something of that kind. But I hope it will not be like that.*

Keeping in mind that only one entrepreneur voiced this concern, this perception of being limited in terms of where you can carry out business in Nairobi based on ethnic identity could have a negative effect on opportunities for growth, particularly in light of the popular trend of wanting to expand by opening other branches. It would be interesting to investigate whether other *jua kali* entrepreneurs feel similarly constrained by the ethnic divisions within the city, and to what extent this impedes or promotes ambitions for future growth.

5.5.4 Access to finance and growth aspirations

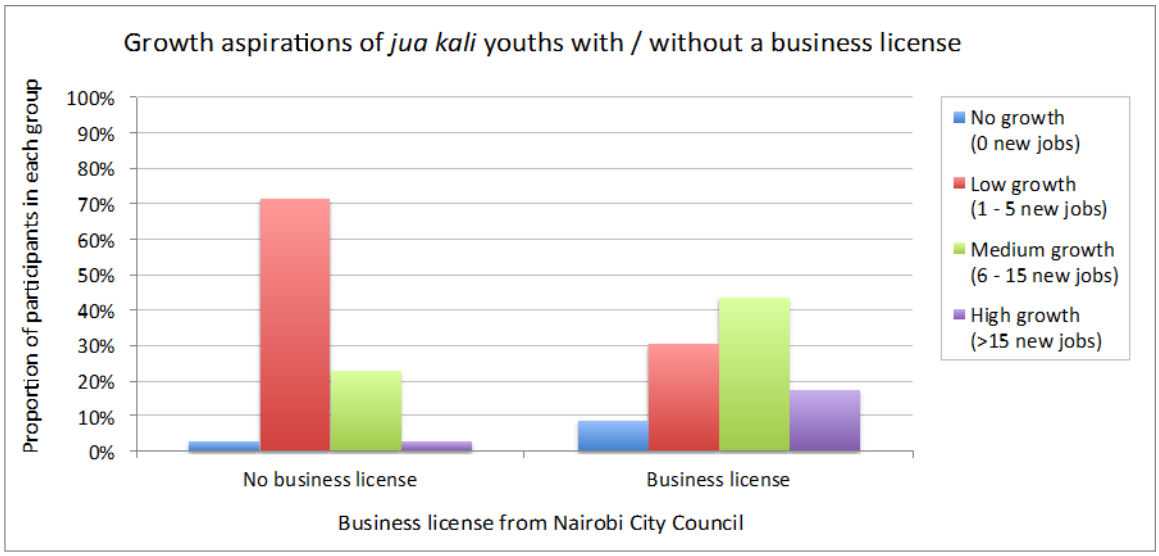
The ability of entrepreneurs to transfer money, to save money securely, and to access credit and insurance can affect business growth and success. These opportunity-related factors may also have an influence on growth aspirations, especially in developing countries where access to these services is often limited. In sub-Saharan Africa, less than a quarter of adults have access to formal financial services (IFC, 2013). Indeed, accessing capital was the biggest challenge expressed by the majority of entrepreneurs in my study. In Kenya, however, the so-called unbanked are able to use M-Pesa, a world-leading mobile-money system that allows customers to use their mobile phones to transfer money quickly and securely. Although the financial inclusion effects of M-Pesa are well-documented, entrepreneurs in Kenya, especially those operating informally, still face many financing constraints. Below, I present the results of my analysis regarding access to finance and the potential effects this has on entrepreneurial growth aspirations.

The majority of participants (79%) have at least one bank account. For the most part, these accounts are used for savings, although several participants (12%) said their accounts are dormant because they are not earning enough to make deposits. However, my results suggest there is no connection between having a bank account and growth aspiration levels. Almost as common as the use of bank accounts in Kenya is the use of informal micro-savings groups called *chamas.* These groups are used to pool and invest savings and are typically structured as merry-go-rounds, a type of revolving loan fund "where each member contributes a pre-determined amount of money at regular intervals to a common fund and the money is then distributed to members in rotation" (Malombe, 1996). Members of *chamas* guarantee one another and can take loans once they have contributed a certain

amount to the group. Some *chamas* are better able to take group loans from formal financial institutions and other funds, such as the Youth Enterprise Fund or Uwezo, helping informal enterprises access the capital they need to grow their businesses. Although the use of *chamas* is highly prevalent among *jua kali* entrepreneurs, the results suggest there is no relationship between being a member of a *chama* and aspirations for growth.

The results do suggest, however, that the unregistered nature of most *jua kali* businesses is a constraining factor when it comes to accessing loans from banks, and could therefore also be a limiting factor when it comes to entrepreneurial growth aspirations. By affecting the entrepreneurs' opportunity for growth, the inability to access loans may also affect *jua kali* entrepreneurs' ambition to further develop and expand. However, since nearly every participant in my study has not registered their businesses formally with the Kenyan Revenue Authority (KRA), I cannot provide insight into the effect of informality on growth aspirations. This would require a comparative research design between entrepreneurs with registered and unregistered enterprises. What I can shed light on is the potential effect of having a business license from the Nairobi City Council. Although the vast majority of entrepreneurs in this study are not registered with the KRA, nearly half (41%) of them do have a business license. While this is not equivalent to registering with the KRA, business licenses can be used as a proxy for a degree of formalization which can at least indicate whether there is any relationship between a higher degree of formality and growth aspirations. Figure 19 below examines the growth aspirations of entrepreneurs who have a business license compared to those who do not.

Figure 19: Growth aspirations and business licenses



Source: Author, 2016

As Figure 19 shows, there appears to be a positive relationship between having a business license and growth aspirations. Compared to the 59% who do not have a license, those entrepreneurs who do have a license are more likely to have medium and high growth aspirations. To understand the implications of this trend, it is necessary to understand that in Nairobi, licenses are granted on an annual basis and cost participants anywhere from 3,400 - 10,000 Kshs per year (approx. $45 - $130 CAD), depending on the size and location of the business property. Moreover, those without a business license must pay a tax to Nairobi City Council officers either once, twice, or three times a week. This typically amounts to a weekly payment of anywhere from 50 - 600 Kenyan shillings (approx. $0.65 - $8 CAD). In other words, having a license can be much cheaper than not having one. However, acquiring a license requires making a lump-sum payment to the City Council once a year, which many *jua kali* entrepreneurs cannot afford. Thus, on average, entrepreneurs who have a business license are often those who are already better off. For instance, only 33% of participants in the lowest income bracket (0 to 1,000 Kshs per day)

have a business license, compared to 50% of those in the highest income bracket (more than 5,000 Kshs per day). Notably, it is far more common for entrepreneurs operating within the more permanent premises in Uhuru and Gikomba markets to have a business license. As one young entrepreneur in the Gikomba garment cluster explained, *"Yes, [my business] is registered with Nairobi's City Council… you must register your business if you want to work here."* Therefore, it is possible that the observed positive relationship between having a business license and growth aspirations is attributable to some of the other factors previously discussed, such as 'room for growth', property rights, or security.

5.5.5 Conclusion: Opportunity for growth and growth aspirations

The analysis of my results suggests that opportunity for growth may be the most reliable predictor of growth aspirations. In particular, it appears that growth aspirations vary to some extent depending on which sub-sector the entrepreneur is involved in: those in the garment clusters tend to have higher ambitions than those in the metalwork and carpentry clusters. As my data suggests, this may be explained by the different levels of 'room for growth' within each sub-sector, or perhaps by differences in the security of land tenure. My results also show that those young entrepreneurs with family support tend to have higher growth aspirations than those who lack this support system. Ultimately, these findings lead me to conclude that Hypothesis 4 is true in the case of *jua kali* entrepreneurs in Nairobi: greater opportunities for growth are associated with higher growth aspirations. However, further research is needed to determine the effects of access to finance, since the financial experiences of the entrepreneurs in my study are too similar to generate meaningful comparisons and insights.

6 Chapter: Discussion and Concluding Remarks

The aim of this study was to examine the growth aspirations of young *jua kali* entrepreneurs in Nairobi and to identify why some are more growth-oriented than others. I set out to investigate the widely held belief that necessity-driven entrepreneurs have minimal aspirations for the further development and expansion of their firms, and to examine the factors that influence growth aspirations in a developing-country context. The main finding is that while most young *jua kali* entrepreneurs are indeed driven by necessity, they are also growth-oriented. The majority of young *jua kali* owner-managers are not satisfied with the status quo – they want to grow their firms in order to increase their profits and employ others. In this chapter, I will review the research findings and their broader implications regarding the *jua kali* sector as an employment avenue for Kenyan youth.

6.1 *Jua kali* entrepreneurs: Necessity-driven and growth-oriented

The young *jua kali* entrepreneurs involved in this study are largely pushed into self-employment out of necessity. This finding is broadly consistent with the literature on informal entrepreneurship that suggests the majority of owner-managers operating in the informal sector are necessity-driven. Most *jua kali* entrepreneurs in my study clearly turned to self-employment as a survival strategy, with only a handful showing signs of being pulled into it in order to exploit a business opportunity. Moreover, my results suggest not all entrepreneurs fit clearly into one category or the other: they may exhibit both push and pull motives, and it seems possible that motives may shift over time, from more necessity-driven to more opportunity-oriented.

The results suggest that those entrepreneurs who are pushed into self-employment have lower growth aspirations than those who are pulled into it, which is also in

concurrence with prior studies. Although there were only a few opportunity-driven entrepreneurs in my study, this group did seem to have slightly higher growth aspirations on average when compared to the necessity-driven group. This does not mean, however, that the necessity-driven entrepreneurs do not intend on growing their businesses. On the contrary, my results show that necessity entrepreneurs have a wide range of growth aspirations. Almost every *jua kali* entrepreneur in this study hopes to further develop and expand their firm, and both male and female owner-managers seem keen on creating jobs for other youth in order to help bring them out of unemployment. Even though many of them are not yet earning enough to cover their own needs, they are already thinking of how they would like to help other youth by creating opportunities for employment and training. In fact, my findings suggest that, despite high levels of competition and crowding in *jua kali* markets, there is a genuine desire among young entrepreneurs to hire other youth and to help them start small businesses of their own.

All in all, the results do not support the first hypothesis of this study, which predicted that entrepreneurs driven by necessity or the basic need for survival would have low or no growth aspirations. This is an important finding because it is often assumed that *jua kali* entrepreneurs are only subsistence-oriented and do not contribute much to employment creation beyond creating a job for themselves. Although growth aspirations are just one part of the equation and do not equate directly to actual growth, the results reveal that the desire for growth is there. This suggests that if they had the means, most young *jua kali* entrepreneurs – both men and women – would want to grow their firms and employ others. As I will explain further in the following section, this desire for growth exists largely because many of them need to grow and expand in order to ensure their survival or in order

to reach an acceptable standard of living.

6.2 Opportunity, ability, and need: Explaining variation in growth aspirations

Beyond determining whether or not young *jua kali* entrepreneurs aspire to grow their firms, this study also sought to identify why some may be more growth-oriented than others. For instance, one of the first factors I examined was the entrepreneurs' gender, to see if this could help explain the observed variation in growth aspiration levels. While the results showed that there was no clear relationship between the entrepreneurs' gender and growth aspirations, it was within the garment sub-sector which is largely dominated by women that young *jua kali* entrepreneurs expressed the highest growth ambitions. The extent to which this is attributable to the strong female presence is unclear, however, and requires further research. Notably, especially in the garment sub-sector, some of the older female entrepreneurs are well-respected and even admired as successful business people.

In an effort to identify why some entrepreneurs have higher growth aspirations than others, this research engaged with Davidsson's (1989) 'determinants of growth motivation' model which treats all of the explanatory variables for growth motivation as aspects of three more general concepts: ability, need, and opportunity. By examining the growth aspirations of *jua kali* youths through this lens, I found that variables related to the entrepreneurs' opportunity and ability seem to prevail as the most relevant determinants of higher growth aspirations. In particular, those entrepreneurs engaged in the garment sub-sector where there may be more opportunity for growth tend to have higher aspirations than those in the metalwork and carpentry sub-sectors. Moreover, those entrepreneurs who have family support – which can reduce barriers to growth and thus improve opportunities – also tend to have higher growth aspirations. With regards to ability, the results show that higher aspirations are prevalent among those with relevant employment experience, those

who are older, those with a secondary education, and those with prior business experience. This suggests that to some extent, the entrepreneurs' ability to exploit opportunities seems to influence their growth aspiration levels. In other words, as expected, those entrepreneurs who are better able to pursue growth are more likely to aspire for it.

The results also indicate that most *jua kali* youths need to grow their firms: the majority are not earning enough to cover their upkeep. This helps explain why most of them intend on further developing and expanding their businesses. It also helps explain why the results are seemingly inconsistent with Davidsson's (1989a) study on Norwegian small firms, which suggests the majority of all small firm owner-managers are not very growth-oriented. Davidsson (1989a) notes that "a majority of the studied small firm managers seem to have reached a condition where they feel they can choose rather freely whether or not continued development should be pursued. To many, retaining the status quo is satisfactory" (211). Unlike the entrepreneurs in Davidsson's study, most young *jua kali* entrepreneurs have not yet reached such a condition. For many of them, retaining the status quo is not a viable option – they need to grow in order to survive and support their families.

The difference between *jua kali* entrepreneurs and the entrepreneurs in Davidsson's (1989a) study raises an important discussion about the external validity of my study in regard to entrepreneurs beyond developing countries. Although prior research has shown that necessity entrepreneurs exist the world over, this study suggests that to be a small scale entrepreneur in an OECD country where basic needs are satisfied is not the same as being one in a poor country of the Global South. Indeed, the results confirm an overwhelming presence of necessity-driven entrepreneurs in Kenya, and within *jua kali* the notion of 'need' does not stop at the establishment of the firm. Small-scale entrepreneurs in OECD

countries are more likely to reach the condition described by Davidsson whereby they can freely choose whether or not to continue to seek growth. In these countries, the entrepreneurs' 'need' for growth is most often based on their desire to maintain a certain standard of living they have come to expect. On the contrary, necessity entrepreneurs in developing countries face a different reality. For many, their 'need' for growth stems from their basic need to survive – in other words, pursuing growth is necessitated by the fact that their basic needs are not being met. This puts them in a very different position compared to other necessity entrepreneurs in more developed regions.

Although 'need' helps explain why almost all *jua kali* entrepreneurs intend on expanding their business to some degree, it does not appear to be relevant in explaining variation in the level of aspirations. A rather surprising finding is that those entrepreneurs who one would expect to have a greater need for firm growth do not seem to have higher growth aspirations. In this study, I tried to capture the entrepreneurs' need by examining variables like business size, business age, economic satisfaction and number of dependents. It is possible that by using these measures, I was unable to capture enough variation to adequately show the predicted relationship (for instance, that older or wealthier firms have less need for growth and thus, lower growth aspirations). It is possible that the threshold for an "old" firm is too low, since the focus of this study is on young people who consequently have fairly young businesses. If this study had included more entrepreneurs with older firms, the expected negative effect on growth aspirations might have been observed. Similarly, it is possible that I was not able to capture enough variation in firm size to reflect the expected relationship, since most young owner-managers in my study have fairly low profit levels, with only a handful operating above subsistence needs. A

broader sample that included more profitable or larger firms might have shown that those with higher profit levels, and presumably less need for growth, have lower growth aspirations. Moreover, since there was no correlation between number of financial dependents and growth aspiration levels, it is possible that this is not an accurate measure of 'need' in developing countries. It is possible that children instead represent a source of labour in family-run businesses, which is consistent with the wealth-in-people[6] concept commonly applied in studies of sub-Saharan Africa.

When looking at *jua kali* entrepreneurship as a potential solution to Kenya's youth unemployment crisis, what do these results tell us? First of all, they show that the need and desire for growth is there. While this may not tell us much about why some are more growth-oriented than others, it indicates something important about the reason almost every *jua kali* entrepreneur aspires to expand their business. The need to survive not only drives youth into the *jua kali* sector, it also drives them to pursue continued growth and expansion of their businesses beyond the start-up phase. In other words, Nairobi's young *jua kali* owner-managers do not lack the motivation to seek growth; if they could, they would attempt to grow their businesses. So what is stopping them?

It seems that the most prominent obstacles preventing *jua kali* youth from seeking growth have to do with opportunity; most entrepreneurs said lack of capital is their biggest challenge, alongside high competition and lack of customers. If opportunity factors represent the main barriers to growth, this may help explain why those with better opportunities to exploit are more growth-oriented. Moreover, since opportunity-related

[6] A concept developed by anthropologists and historians which emphasizes how power and influence may be achieved through the accumulation of dependents, followers, or other social ties. It originated in Miers & Kopytoff (1977), Slavery in Africa.

barriers seem to be less of a problem for these entrepreneurs, they may actually be more likely to achieve the higher levels of growth that they aspire to. The results also tell us that ability matters: those with a greater ability to exploit opportunities are more likely to aspire for growth. In particular, having relevant employment experience seems to be connected with having higher growth aspiration levels. As I discuss further in the following section, this can have important implications for youth employment in Kenya.

6.3 *Jua kali* work: Vulnerable employment or meaningful opportunity?

The emphasis of this study has been on the role of *jua kali* entrepreneurship in creating employment opportunities for Kenya's jobless youth. As I discussed in Chapter 2, however, underemployment rates in Kenya are especially high, so it is important to look not only at the quantity of jobs created, but also at the quality. Much of the employment young Kenyans are able to obtain is vulnerable in nature, which means they often face inadequate earnings and irregular work hours, dangerous work conditions, no social protection, and other unfavourable conditions. It is thus important to consider the type of employment created by *jua kali* entrepreneurs and what this means for government approaches aimed at enhancing the livelihoods of those who earn their living from this sector.

Although the results reveal that the conditions involved in *jua kali* work are not ideal, they also suggest this employment presents youth with opportunities to move beyond wage work and to start small firms of their own. This not only provides youth with higher incomes and more freedom, but it also boosts an apparent cycle of entrepreneurship that can continue to generate informal employment and business opportunities for future generations of young Kenyans.

6.3.1 Jua kali fostering a cycle of entrepreneurship and job creation

One finding that became very evident in this research is that most young *jua kali*

entrepreneurs acquired their skills within the *jua kali* sector, either in apprenticeships or as employees in other small firms. They were hired by another *jua kali* owner-manager, and in some cases trained, and then learned how to run a business through their involvement in that enterprise. Once they developed the necessary skills and capital to branch out on their own, they started their own small enterprises, often within the same market as their former employers. Today, these young *jua kali* owner-managers want to expand their firms and hire other workers, with many hoping to help other youth start businesses of their own.

Acquiring on-the-job training is common among *jua kali* youths because many leave formal education early before developing the skills needed to start and run a business. The results show that the majority drop out before completing secondary school. This concurs with other studies on informal employment in Kenya, which suggest most informal entrepreneurs acquire their skills through apprenticeships in other enterprises of similar size (Agelu, 2014; Baiya, 2003). As Agelu (2014) argues:

> *The informal economic sector is the only available option for youths who exit formal schooling early before attaining skills, and is, at the same time, the period for transitioning to adulthood. This is an occasion for youths to meet life needs by copying activities on the streets. With the informally acquired skills, youths seek work in the informal economic sector, and indeed, this sector's activities attract numerous youths. Consequently, informal learning is an avenue for transferring knowledge and skills to adults through everyday experiences (18).*

Although this excerpt from Agelu (2014) emphasizes the necessity-driven type of self-employment, it helps explain the important role of informal learning that is apparent in the results of my study. As Baiya (2003) further explains, it is mostly among higher-end enterprises – that is, not in *jua kali* firms – that youth with a formal technical and vocational training and education background tend to work.

Overall, the results suggest there exists a kind of cycle of employment in the *jua kali* sector: unemployed youth are pushed into casual *jua kali* work where they receive training

and learn the industry, and this eventually leads to the creation of new *jua kali* firms that may grow and absorb yet more youth into the sector. Thus, for most *jua kali* entrepreneurs, their experience working in the *jua kali* sector was critical in enabling them to start-up their own small firm. Although it is unclear from my results whether former *jua kali* employees intended to eventually become owner-managers themselves when they first started working, it is apparent that the conditions of their employment was a major reason many decided to make this transition. As I discuss in the following section, most *jua kali* wage jobs are vulnerable in nature.

6.3.2 Considering the vulnerability of jua kali employment

Although *jua kali* wage work can enable otherwise unemployed youths to transform from job seekers into job creators, the conditions of this work are far from ideal. The results show that *jua kali* wage labour is vulnerable: wages are low, work hours are either too long or insufficient, and they operate in risky environments with no protection. In fact, many entrepreneurs who started off working in another *jua kali* firm expressed that it was largely the poor conditions of their prior employment that drove them to become self-employed. They said the pay was so little that it was not a viable option for them; as soon as they had enough capital, they started their own business instead. Moreover, the results show that some former *jua kali* workers felt they were misused or mistreated by their former employers, which also contributed to their quick transition into self-employment.

What does this say about the type of employment Kenya's young *jua kali* entrepreneurs are likely to create? Should *jua kali* work be seen as a hopeless employment avenue unlikely to have any real impact on youth unemployment? Or is it more accurately depicted as a meaningful opportunity for youth to develop entrepreneurial and managerial

skills that can help them to start their own small firms? The results suggest most small firms are unable to offer workers regular work hours and fair wages. Given that for many *jua kali* youth entrepreneurs, profit levels vary widely from day-to-day and in some cases, seasonally, it is likely that most jobs they manage to create will be casual and vulnerable in nature. This coincides with the findings of the World Bank's 2013 Informal Enterprise Survey on Kenya which found that most informal firms pay minimum wages or less (Handjiski et al., 2016). Of course, this is not the ideal solution for Kenya's youth. However, in the absence of alternative options, at least *jua kali* work seems to provide youth with a basic means of survival and, in most cases, with informal learning that can help them develop much-needed skills. From there, they can build on those skills and pursue additional training, which may potentially allow them to find work in higher-end firms, or they can start running their own small businesses.

In summary, the results suggest there is potential for youth in *jua kali* employment beyond the job itself. This sector not only acts as an important fallback option for many young Kenyans, giving them at least some alternative to complete joblessness and despair, but also acts as a breeding ground for the development of more small firms. This, in turn, can provide yet further job opportunities and informal learning to other unemployed youth.

6.3.3 Policy recommendations

The findings outlined above give way to several policy recommendations that may improve the apparent *jua kali* job creation cycle and better support young Kenyans who depend on informal learning to develop the skills they need:

1) **Develop basic business or finance education opportunities for entrepreneurs operating within *jua kali* markets.** Many entrepreneurs leave formal education

before secondary school, when they would typically be taught basic business skills. Given the employment creation potential of young *jua kali* owner-managers, and their apparent role in creating opportunities for the next generation of *jua kali* entrepreneurs, it would be beneficial to provide them with the knowledge and skills they need to more effectively run and grow their firms.

2) **Offer incentives to established *jua kali* entrepreneurs to hire unemployed, unskilled youth and to train them so that they can eventually start their own small firms.** This would further reduce youth unemployment and ensure that those young Kenyans who turn to informal self-employment, even as a last resort, are able to develop the skills and business know-how to engage productively in the sector. It would also increase the capital of more established firms, removing some of the barriers to growth and potentially enabling them to hire yet more workers.

3) **Teach and encourage youth, including students and young *jua kali* entrepreneurs, to 'think outside the box'.** Two of the main barriers to growth *jua kali* owner-managers face is high competition and lack of customers. Although most entrepreneurs in *jua kali* learn the business through copying, teaching them how to be even slightly innovative could help them differentiate their products enough to stand out and improve sales. This, in turn, could allow them to pursue the growth they aspire to achieve and hire yet more unemployed youth, to whom they could pass on what they have learned about the importance of innovation.

6.4 Limitations of the study and suggestions for further research

This study has a number of limitations. Importantly, it was beyond the scope of this research to introduce controls in my analysis. Although it would have been ideal to examine

how all of the variables interact with each other, the sample size and data collection methods did not allow for a multivariate statistical analysis. Instead, I focused the analysis on one-to-one relationships between growth aspirations and the wide range of independent variables I considered, using the largely qualitative data set to present some of the nuances behind these apparent co-relations. Since I did not control for the effect of other confounding factors, I cannot conclude that any of the variables in my study actually cause lower or higher growth aspirations. In other words, I do not attempt to determine cause-and-effect relationships.

There are several areas where I feel that the lack of controls hampered my ability to capture the true relationship between certain variables. Foremost, I was unable to identify the real reason why growth aspirations seem to be higher among entrepreneurs in the garment sub-sector. While I hypothesized that this may have something to do with greater 'room for growth' in this sub-sector, this trend could be attributable to a wide range of other confounding factors, such as gender, location, quality of property rights, security, or other socio-demographic characteristics. Another area where I felt that the results were weakened by the absence of controls was regarding the apparent effect of family support. While having family support could reflect the family's ability to offer support (thus reflecting family wealth, for instance) it could also reflect a range of other factors. For instance, it is possible the entrepreneur does not have a family or does not have a good relationship with their family, or that they have many other siblings who also need support. Therefore, unpacking this relationship by introducing controls could affect the conclusion that family support matters. All in all, while this study does not allow me to draw causal linkages, it contributes to existing research by revealing important relationships that should

be further investigated. With the information presented in this study, surveys can be developed in order to capture the data needed to conduct a multivariate analysis. This study thus sheds light on potential linkages that should be further investigated, and suggests that larger studies with statistical analyses would be of interest.

The internal validity in this study, though to some extent threatened by the absence of controls, was enhanced through the use of random sampling procedures. As outlined in Chapter 4, I used random sampling methods whenever possible in order to capture a fairly representative sample of young men and women within each of the different clusters. I am confident that within these clusters, this study has significant internal validity. In other words, the results are an accurate reflection of the situation of *jua kali* entrepreneurs in these clusters and in other clusters of a similar nature. As I explained in Chapter 4 however, the clusters included in this study mostly attract entrepreneurs with somewhat similar socio-demographic characteristics when compared to clusters in Nairobi's slums or more affluent neighborhoods. The results may therefore not be reflective of self-employed youth operating *jua kali* firms in an informal settlement such as Kibera[7], for instance. Similarly, they might not be reflective of *jua kali* youths operating in some of the city's wealthier neighborhoods.

Another limitation of this study involves the measure used to reflect entrepreneurial growth aspirations. In order to categorize growth aspiration levels, the study looked at the increase in absolute numbers of additional workers the entrepreneur aspires to employ in the next five years. This classification, while useful when looking at entrepreneurship through the lens of employment creation, fails to capture the relative increase that those

[7] Kibera is a slum located in southwest Nairobi. As one of the biggest slums in the world, it is infamous for overcrowding, poverty and lack of sanitation.

numbers represent for each entrepreneur. For instance, someone who wants to add two more employees in the next five years, but only has one employee now, has relatively higher growth aspirations than someone who wants to add two more employees but who already has five employees now. Both entrepreneurs are adding two more workers, but for the first person this growth represents a 200% increase in firm size, while for the second person it represents only a 40% increase in firm size. Thus, to categorize them both as having the same level of growth aspirations – that is, two additional workers – does not fully capture how much this change in additional workers represents for each entrepreneur. Future studies should take this into consideration as well.

As I discussed in the previous section, the issue of vulnerable employment is apparent in the results of this study. Another limitation, therefore, is that I was not able to capture the type of jobs these young entrepreneurs intend on creating in the next five years. The results show that *jua kali* youths tend to hire more casual workers than they do permanent workers. However, given that this study focuses on the absolute increase in number of employees, I did not capture this distinction when asking entrepreneurs about their future job creation plans. It is possible that hiring permanent employees represents a different level of growth than hiring more casual workers. Likewise, it could be that entrepreneurs will experience a shift in the type of workers they are able to employ as they grow, starting off with more casual employees and then being able to hire them on a more permanent basis later on. These nuances were not captured in my study. Future research could shed light on this by asking entrepreneurs not only about the number of workers they hope to hire, but also about the type of work they will hire them for and the corresponding conditions of that employment. It would be useful to look at the wages they pay their

current workers and the wages they expect to pay future employees. These considerations were beyond the scope of my research, but could shed further light on the type of employment that is likely going to be created.

6.5 Concluding remarks

To my knowledge, this is the first study of its kind to explicitly examine the employment growth aspirations of young *jua kali* entrepreneurs in Nairobi. The findings reveal that most young entrepreneurs are not satisfied with the status quo and want to further develop and expand their businesses. Recognizing that growth aspirations are just part of the growth equation, these results are important because they tell us that if the young *jua kali* entrepreneurs had the means to pursue growth, they would want to expand their firms and employ others. Moreover, the findings show that there seems to be a sincere desire among young owner-managers to employ other people, which suggests that resources invested into helping young *jua kali* entrepreneurs overcome barriers to growth would not be wasted. On the contrary, supporting *jua kali* youth would be a smart investment, since the findings indicate this could boost an apparent cycle of employment through continued entrepreneurship.

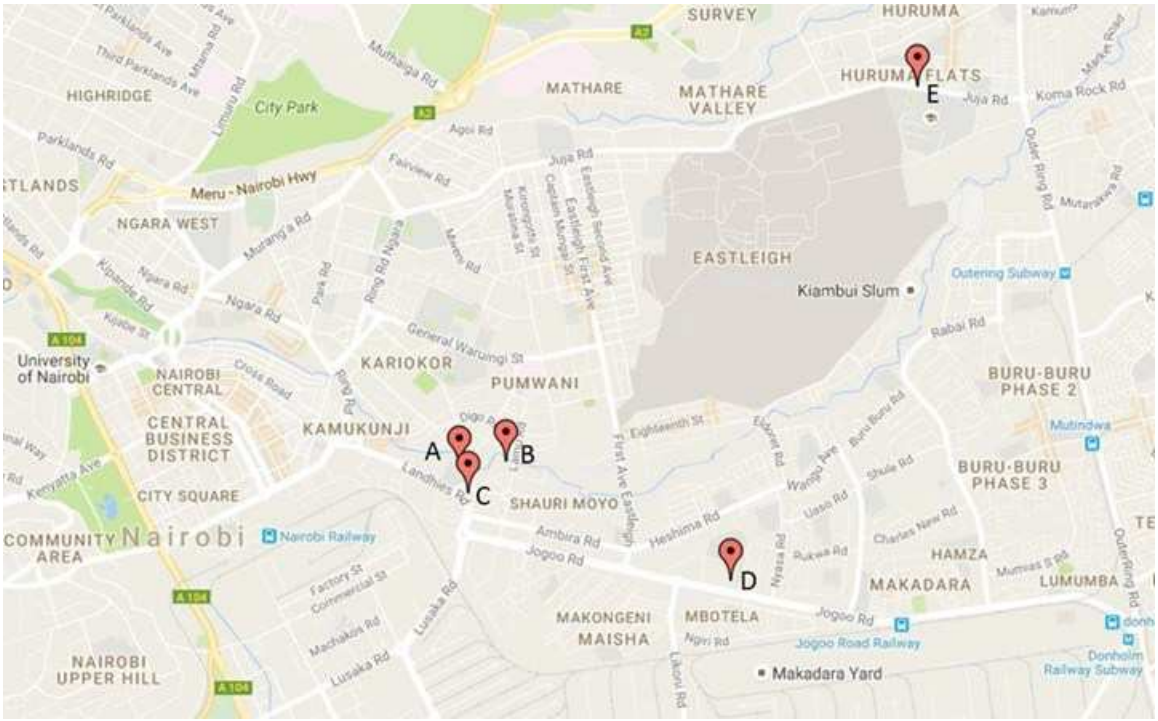
These results describe for the first time why some young *jua kali* entrepreneurs tend to be more growth-oriented than others. The findings suggest that while entrepreneurial motives may help explain some variation in growth aspirations (opportunity-driven entrepreneurs tend to have slightly higher aspirations on average), there are many other factors beyond motives that seem to matter. For instance, the evidence reveals that relevant work experience – such as having worked in another *jua kali* firm – is linked to higher entrepreneurial growth aspirations. Thus, incentivizing established *jua kali* owner-managers to hire and train more unemployed youth could lead to the development of even

more growth-oriented entrepreneurs within the *jua kali* sector. In turn, these new entrepreneurs can hire and train others, bringing yet more youth out of unemployment.

In summary, this study shows that while it is useful to recognize that many entrepreneurs in informal economies are necessity-driven, since they tend to face different barriers and challenges, generalizations about this group should be made with caution. It appears from the findings that among entrepreneurs with no other income-generating options there exist a wide range of different business intentions and growth aspirations; it is thus inaccurate to assume that necessity-driven entrepreneurs do not aspire to grow their firms. Notably, this study reveals that even those entrepreneurs who would typically be labelled 'subsistence-oriented' – meaning they undertake entrepreneurial activities simply to survive – are likely to aspire for a certain level of firm growth, since many have not yet reached a condition where they are earning enough to get by. Of course, many of these entrepreneurs are not the "high potential" type the World Bank (2012) was referring to when it estimated that if each entrepreneur with high potential for success in Kenya were to create a single additional job, it would lead to an 8% increase in employment. However, for many informal youth entrepreneurs, the often-harsh realities of their economic situations necessitate the continued expansion of their firms. Thus, the employment creation potential of necessity-driven and subsistence-oriented entrepreneurs should not be underestimated, as this study shows that they have a strong need and desire to grow their firms and employ others.

Appendices

Appendix A Map of central Nairobi with the five research sites highlighted



Source: Author, 2016 - created using Google Maps

A: Gikomba Market research site, garment cluster

B: Gikomba Market research site, carpentry cluster

C: Kamukunji Jua Kali research site, metalwork cluster

D: Uhuru Market research site, garment cluster

E: Juja Road research site, metalwork and carpentry clusters

Appendix B List of hypotheses and variables studied

Hypothesis	Research Question	Dependent Variable	Independent Variables
H1: Entrepreneurs driven by necessity have low or no growth aspirations	To what extent are entrepreneurial motives associated with growth aspirations?	Growth aspirations	Necessity-driven Opportunity-driven
H2: Greater ability is associated with higher growth aspirations	What explains variation in growth aspirations among jua kali entrepreneurs?	Growth aspirations	Perceived ability Educational attainment Work experience Business experience Entrepreneur's age
H3: Greater need is associated with higher growth aspirations		Growth aspirations	Daily profits Firm age and size Economic satisfaction Financial dependents
H4: Greater opportunity is associated with higher growth aspirations		Growth aspirations	Industry sub-sector Market cluster/location Challenges and obstacles Social capital Access to finance Business license

Source: Author, 2016

Appendix C Research instrument for semi-structured interviews

DEPENDENT VARIABLE	
Five-year job growth aspirations	*How many workers do you employ currently? How many workers do you expect/hope to employ in 5 years? Explain.*
Future career plans *(to get a broader sense of their career plans)*	*Tell me about your future career plans. What do you plan to do?*
Future business plans *(to get a broader sense of their business plans)*	*Do you intend on growing your business? Why or why not? Tell me where you see your business in 5 years?* *Do you plan to focus on this outlet, or are you planning to add other branches/businesses? Why?*
INDEPENDENT VARIABLES	
NEED	
Marital status	*Are you married? What is your spouse's occupation?*
No. of children	*Do you have children? If yes, how many?*
No. of dependents	*How many people at home depend on your income?*
Other income	*Do you have any other source of income?*
Perceived need	*Do you earn enough to cover your upkeep / daily needs?*
Business size	*What is your average daily profit?*
Business age	*When did you start this business?*
ABILITY	
Education	*What level in school did you reach? Tell me about your education.*
Training	*Did you receive any other training? Any apprenticeships? Where?*
Employment experience	*What were you doing before you started this business? Have you ever been employed? If so, where?*
Business experience	*Is this your first business? Is this your only business? What kind of business did you run before?*
Perceived ability	*Do you feel that you have the knowledge and skills you need to grow your business? Why or why not?*
OPPORTUNITY	
Social networks	*Are you a member of any workers associations? Which ones? How do they help you?*

	Is there a group of merchants/artisans who you work with more than others? How do you know them? Tell me more about those relationships. How do you help each other?
Family support	*Did your family help you start your business? How did they help?* *If you wanted to expand or grow your business, would anyone help you? Who would you turn to? How would they assist you?*
Entrepreneurial family	*Does anyone else in your family own a business? Who? What kind of businesses do they run?*
Mentorship	*Various people may give you advice on your business. Who have you received advice from? Who has been your greatest mentor?*
Access to finance	*Where did you get the capital to start your business?* *Do you have a bank account? Have you ever taken out a loan or used a micro-finance institution?* *Have you been able to save? How do you save? Are you a member of a SACCO? A Marry-go-round? Which ones?*
Challenges / barriers (perceived opportunity)	*What are the biggest barriers or challenges you face in running your business? How do you overcome these?* *What is unique about your business? Why do customers come to you? How do you overcome competition? How do you get your customers?*
Business license	*Do you have a business license? How much do you pay?*
ENTREPRENEURIAL MOTIVES	
Current motives	*Why do you run this business? PROBE.* *Do you have other options for work?* *If someone offered you a wage job, would you take it or would you continue to run your business?* *Would you rather be doing other work to earn income? What type of work would you rather be doing?*
Reason for start-up	*What were you doing before you started this business? Why did you decide to start this business?* *Did you have other options at the time? What were they? Why did you choose this instead?*

Source: Author, 2016

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