

Agribusiness entrepreneurship in Tanzania

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Summary

The individual PhD project “Agribusiness entrepreneurship in Tanzania” investigated the processes through which business founders manage to successfully grow the micro-ventures they created. This was done through analyzing qualitative data from longitudinal case studies of agribusiness and food entrepreneurs founding micro- to small-scale businesses. The case study approach allowed for an in-depth exploration of the founder-related processes that underlie microenterprise growth and organizational development. These processes are in general little investigated. A better understanding of them is particularly relevant for fostering business development in Africa’s young emerging economies.

Findings from the project suggest that in order to foster the growth of microenterprises into commercially viable businesses, policy makers as well as aspiring owner-managers of promising small firms need to pay more attention to a) conflicts between business goals and personal development goals of the owner, and b) the development and implementation of venture-specific business processes to manage growth and build an organization able to create and capture value, learn, and change to increase its chances of growth and survival.

This policy brief gives a brief introduction to the project background and the study results in terms of the article-based dissertation produced. It finished with a conclusion and implication section that, based on the study results, provides practice-oriented recommendations for small business owners and policy makers designing entrepreneurship and small business support programs in East Africa.

Project background and results

The project was carried out as a qualitative, longitudinal study between 2010 and 2013. Tanzania was chosen as a very relevant setting for this project: In Tanzania, recent economic developments and institutional change have started to provide growth opportunities, especially in the agribusiness and food industry. However, a general scarcity of resources, high uncertainties, and limited management experience leads to a situation in which the founders of microenterprises particularly struggle with transforming a traditional micro enterprise into a growth-oriented, small firm.

In total, close to 70 formal interviews with the founders and owner-managers of micro- to small-scale businesses were conducted, with the goal of gaining insight into the challenges of managing and growing a business in their industry, both with regard to external factors as well as firm-internal difficulties. Additional sources of data included observations, photographs, reports, and visual data in the form of drawings and organizational charts

made by the study participants during the interviews. The specific cases were selected through collaboration with Sokoine University of Agriculture in Morogoro, Tanzania, as well as the Small and Medium Enterprise Competitiveness Facility (SCF). Three Tanzanian master students studying agribusiness economics supported the project as research assistants. They facilitated the selection of cases, introduced the researcher to the study participants, and, if necessary, translated interview questions and answers. Furthermore, SCF managers established contacts to further cases from different areas in Tanzania, notably Dar es Salaam, Arusha, Kagera, and Dodoma.

The project resulted in an article-based dissertation encompassing an introductory part and 4 articles. The introductory part states the research background and the research problem, i.e., how to entrepreneurs manage the transformation from micro-enterprise to small firm? It provides background literature to position the thesis topic vis-à-vis existing entrepreneurship, management and organization literature, and presents the case of agribusiness and food entrepreneurs in Tanzania as a relevant context for investigating the research problem. It also includes a more detailed overview of the research design and the main conclusions.

The 4 articles that are currently in preparation for submission to international, peer-reviewed journals address the research problem by looking into the micro-processes underlying growth, that is, what founders think, feel, and do when they attempt to grow their enterprises. The research questions addressed by the individual articles are:

- 1) Article 1: *How does resource orchestration create value in growing family firms?*
- 2) Article 2: *How does the translation of cultural codes into specific resource orchestration blueprints influence organizational growth?*
- 3) Article 3: *How do experiential learning processes influence portfolio entrepreneurship?*
- 4) Article 4: *How do entrepreneurs make sense of growing microenterprises into small firms?*

Conclusions and implications for small business owners and policy makers

This project contributed micro-insights into the processes through which microenterprises grow and develop, thereby extending existing theories on entrepreneurship, strategic management, and organization during the early (and little investigated) stages of organizational growth. Based on the study results, the main implications for business practice in East Africa are as follows.

Recommendation for small business owners

In addition to entrepreneurial skills (create a business, find customers, etc.), African business founders need to develop managerial skills to organize their businesses internally. More specifically, aspiring owner-managers not only need to find ways to gain resources, but also learn how to orchestrate these resources in order to create and

capture value. With a focus on internal management challenges, aspiring owner-managers are thus advised to consider the following:

- a) Having a viable opportunity and resources to start the business is not enough. Growing and maintaining a business requires management experience to develop the necessary organizational blueprints, such as strategic visions, operation manuals, or financial management tools. These blueprints need to be specific for the company and have to be developed as the organization grows, but prior experience in related areas (work and projects) can ease this task. Founders without any prior management experience need to be extra careful when responding to growth opportunities;
- b) Diversification can be a mechanism for accumulating the resources that are necessary to initiate growth. However, founders should diversify more cautiously and strategically, i.e., take into account their current resources and stability of their operations, including possibilities to hand-over businesses that they cannot operate anymore to others before ‘jumping’ into the next opportunity;
- c) As the organization grows, tasks need to be delegated. Founders will struggle to find suitable managers and most of the workforce will have to be trained in-house. Therefore, founders need to fully understand how the business is operated and clearly communicate it to the workforce. When hiring managers, entrepreneurs also have to familiarize themselves with management tools (e.g., financial analysis and payrolls);
- d) Employee shirking and theft can lead to serious management problems and may, in the worst case, entirely run down the founder’s motivation to develop the business further. Aspiring owner-managers thus need to gain human resource management skills to develop adequate monitoring and compensation schemes, as well as shared understandings. These measures can mitigate the problem and help avoid drastic measures, such as firing all employees – seriously detrimental for a small organization;
- e) Founders should operate in entrepreneurial teams. The teams may encompass qualified family and non-family members, having an ownership stake, as well as key employees interested in the long-term development of the business. The findings suggest that teams not only enhance skills, but also provide important emotional support and enhance commitment to the business.

Recommendations for policy makers

There is a need for more customized entrepreneurship programs. In particular, policy makers should pay more attention to the intersection between the career/life trajectories of founders and the growth of individual firms to better understand what (or who) is actually being supported. In particular, diversification strategies, managerial abilities, and personal development goals of founders deserve more attention, since upon business growth, what

is best for the founder may not always be what is best for the survival and growth of the organization. In particular, policy makers may consider the following:

- a) While diversification is an important mechanism to develop resources, there is a need to support more strategic diversification and equip entrepreneurs with adequate management tools to harness multiple activities. Support programs and grant schemes may provide incentives for entrepreneurs to fully disclose the range of the activities they are engaged in. Such approaches could concentrate on the development of business models and the search for potential team members to leverage all activities;
- b) Aspiring owner-managers need opportunities to gain context-specific management experience. In addition to training and the provision of standard management tools, more attention should be paid to assist founders with the development of blueprints specific to their businesses. In addition, use of appropriate language and demonstrations of management practices by business consultants may enhance the entrepreneurs' sensemaking with regard formalizing the business. Action-research projects at local universities could support such efforts by developing affordable management tools (e.g., accounting packages and tracking systems). This is important since without the information provided by such tools, it is unrealistic that entrepreneurs can use acquired management experience in a meaningful way;
- c) Many businesses serve as life insurances and instruments for achieving long-term development goals. In the absence of formal social security nets, such strategies are understandable, but will have implications for risk-taking behavior. When designing and evaluating entrepreneurship programs, policy makers may thus consider whether measures are likely to support the long-term goals of the founder or the development of the specific organization. Both targets, supporting individuals or supporting organizations, can be fruitful but need to be evaluated differently;
- d) Founders should be incentivized to improve their business practices and funding should also be tied to reaching internal formalization goals. However, due diligence mechanisms of support programs also need to consider business dynamics. Lengthy projects and evaluation periods may deter entrepreneurs from their everyday efforts. In some cases, support may also be tied to full-time commitment to the business by the entrepreneur (or alternatively a team member), rather than specific objectives; and
- e) Results suggest that a caveat applies in relation to the interpretation of business registration statistics: While informality limits growth, registration by itself is unlikely to entail organizational formalization. Furthermore, entrepreneurs may pursue different strategies. Findings suggest that founders either register each of their businesses separately – a strategy to avoid taxation or change ownership structures – or pursue an umbrella strategy and register a limited liability company under broad terms to incorporate existing as well as any new businesses – both formal and informal.