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WHAT FOUNDERS IN DEVELOPING COUNTRIES LEARN ABOUT ORGANIZING MICROENTERPRISE GROWTH

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ABSTRACT

This study draws on nine cases of microenterprise growth in Tanzania to investigate what microenterprise founders learn from organizational process experience. The findings lead to a set of propositions about founders' learning in opportunity-rich, growth-constrained environments, and are integrated into a discussion of microenterprise growth challenges.

INTRODUCTION

Transforming some of the many survival-oriented microenterprises in developing countries into innovative small businesses has become a major socio-economic concern (Acs, Desai, & Hessels, 2008; Acs & Virgill, 2010; Liedholm, 2002). In addition to improved access to resources and institutional support, this will depend on the skills and learning abilities of microenterprise founders. Above the small organization threshold (>10 permanent employees, see Liedholm (2002), their businesses are more exposed to macro-environmental constraints (Sleuwaegen & Goedhuys, 2002) and heavily depend on their founders' abilities to learn and develop effective strategies and organizational processes to cope with these environments and capture emerging growth opportunities (Bradley, McMullen, Artz, & Simiyu, 2012; Bruton, Filatotchev, Si, & Wright, 2013; Mambula, 2004; Mayer-Haug, Read, Brinckmann, Dew, & Grichnik, 2013).

At the same time, the entrepreneurship literature has started to investigate in more depth the learning activities of founders after initiating a business (Aldrich & Yang, 2012; Leitch, Hill, & Neergaard, 2010; Politis, 2005; Wright & Stigliani, 2013). That is because experience and knowledge acquisition are well-known factors but many of the underlying mechanisms remain unclear, for instance, higher education of founders does not necessarily lead to better start-up performance, neither in developed nor in developing countries (Nichter & Goldmark, 2009). In particular, investigating what founders actually learn from organizational process experience has gained momentum (e.g., Autio, George, & Alexy, 2011; Bingham & Eisenhardt, 2011), since effective organizational processes such as production, marketing, or strategic planning, i.e., regular patterns of action to accomplish a business task (Pentland & Rueter, 1994), enable firms to gather, combine, and use resources to capture business opportunities (Bingham & Eisenhardt, 2011). However, such insights into learning remain widely understudied in developing countries, especially with regard to microenterprises in Africa (Bradley et al., 2012; Lorentzen, 2009; Nichter & Goldmark,

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2009). Our study addresses this gap. Specifically, we ask: *What do microenterprise founders learn from organizational process experience?*

CASE STUDY APPROACH

Using a theory-building, theory-elaborating case study approach (Eisenhardt & Graebner, 2007), we address this question through analyzing data from nine in-depth, longitudinal case studies of microenterprise founders in the food processing industry in Tanzania. Microenterprise growth refers to the growth of informal microenterprises into formalized small firms, i.e., legally registered, permanently operating small organizations with 10-50 employees (OECD, 2005). We focus on organizational process experience in terms of what founders learn about gathering, combining, and using resources.

Research Setting and Cases

The research setting in Tanzania's food processing industry was selected for the following reasons: First, there are increasing growth opportunities in the food industry due to a vastly unexploited potential for agriculture, increasing demand for processed food, and institutional support from revived donor interest in agribusiness for development (WorldBank, 2007). Second, Tanzania, a young emerging economy with low income but high economic growth rates (Bruton et al., 2013), is particularly interesting since its government and the international donor community have made substantial efforts to ease access to start-up capital, improve institutional support for business development, and incentivize entrepreneurship (URT, 2002; World Bank, 2013). Nevertheless, growth remains constrained due to resource shortages and the relatively underdeveloped environment for doing business (Economist, 2011; Temu & Due, 2000; World Bank, 2013). Furthermore, microenterprise founders are challenged to change their strategies and processes since existing studies in East African settings point to a large informal sector consisting of traditional, informal microenterprises, widespread diversification, and rapid cycling strategies to quickly jump from one opportunity to another (Khavul, Bruton, & Wood, 2009; Spring, 2009). In particular, the food processing industry requires capital investments and sophisticated management and organization knowledge to manage new food safety standards and deal with poorly established procurement and distribution channels (Nichter & Goldmark, 2009; Ponte & Ewert, 2009).

The specific cases relate to founders of nine micro- to small enterprises in a regional town with approximately 250,000 inhabitants and a university offering entrepreneurship support programs for agribusiness. We identified the cases in collaboration with the local university and by using different search strategies (pilot interviews over the phone, list of businesses compiled by local authorities, informal interviews with locals). The selection includes cases of successful and unsuccessful microenterprise growth as well as female and male founders with different educational backgrounds. Although there are two primary school leavers the sample is biased towards the small share of the population completing secondary (approximately 25%) and tertiary education (approximately 1%), reflecting an expected threshold level of secondary education for microenterprise growth (Nichter & Goldmark, 2009). Overall, we mainly look at opportunity-driven rather than necessity-driven entrepreneurship (cf. McDade & Spring, 2005). Since ethnicity can influence

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entrepreneurship (e.g. Kristiansen, 2004), we made sure that the selected founders belong to different tribes and have different religious backgrounds. With regard to the businesses the founders operate, it is important to note that most cases are characterized by diversified and usually complementary product offers (e.g., milling and transport).

Data Collection and Data Coding

To guide the collection and coding of our case study data (27 interviews, observations, photographs, and secondary sources collected over a 2.5-year period), we use two theoretical constructs as a lens for studying what founders learn: First, effective resource orchestration (RO) as an important organizational process founders are in charge of. RO captures the patterns of actions organizational leaders take and oversee to gather, configure, and deploy an organization's resources in a way that creates value (Sirmon, Hitt, & Ireland, 2007; Sirmon, Hitt, Ireland, & Gilbert, 2011). Second, to capture learning outcomes, we focus on the founders' development of RO blueprints. For our analysis, we define RO blueprints as the instructions that guide RO-related actions and have their origin both in collective institutions and individual experience gains (Aldrich & Yang, 2012; Sirmon et al., 2007).

Our first data source is approximately 1000 pages of 27 transcribed face-to-face interviews conducted on four field trips (Aug 2010-Jan 2013). Founders received questions about the development of their organizations, with a focus on resources (financial, human, social, and physical resources), organizing activities, and future plans. Follow-up interviews focused on progress made and major learnings. Emphasis was on confirming interpretations of earlier data and triangulating interview questions. All interviews were conducted with the help of two local research assistants holding master's degrees. They facilitated participant access, communication, and interpretation (Bujra, 2006). The interview language was English or Swahili. All interviews were recorded, translated if necessary, and fully transcribed. Transcripts of the interviews in Swahili were randomly tested for correct translation by an independent native speaker. Second, data includes two spreadsheets based on structured questionnaires on individual (age, gender, occupation of parents, education and training, and work experience) and organizational characteristics (year of establishment, range of products and services offered, number of employees at different points in time, legal and ownership structures). Third, we have approximately 30 pages of participant observations (DeWalt and DeWalt, 2011), including notes taken during the interviews and visits of the business premises to describe the interview situation, the production facilities, the number of employees present, and any salient events, e.g., interactions with customers or employees. Observations were supplemented with photographs taken on the production sites. Fourth, data sources also include archival data from reports, newspaper articles, and web content (e.g., articles about power outages).

Data was analyzed by following suggestions for theory-building and theory-elaboration from cases (Eisenhardt & Graebner, 2007). The analysis followed an iterative-cyclical process based on five steps. First, we reviewed the literature on entrepreneurial growth to identify relevant constructs – RO, blueprint development – and build a theoretical background (Aldrich & Yang, 2012; Hitt, Ireland, Sirmon, & Trahms, 2011; Wright & Stigliani, 2013). Second, we organized the data into a case study database and built detailed case descriptions, i.e., case data was triangulated to build chronologies on how each of the founders and their businesses evolved

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over time (Yin, 2009). Third, growth paths were interpreted by coding the data following an inductive-deductive approach (Miles & Huberman, 1994). Specifically, data was coded for three categories of RO, i.e., resources gathered and how they were configured and deployed (the sub-categories were left open to emerge from the data). In a similar way, data was coded for categories of industry-specific and analogous experience in relation to founders' RO efforts. Fourth, aggregated categories (RO over time and levels of relevant experience) were used to build explanations for each growth path (within-case) and identify patterns across similar cases (across-case). Examples of how the original text material was coded can be provided upon request. Fifth, the last step was to develop propositions about what founders learn. All steps involved reviewing the literature and receiving feedback from study participants and peers (Eisenhardt & Graebner, 2007).

FINDINGS

Since entrepreneurship is traditionally associated with innovation, much of the founder's challenge lies in learning to manage the inherent uncertainty of novel products and finding partners for their venture, i.e., they learn much about being resourceful, improvising, co-creating, and gaining legitimacy for their novel ideas (e.g., Baker & Nelson, 2005; Cornelissen & Clarke, 2010; Sarasvathy, 2001).

In contrast, we find that much of the investigated microfounders' learning is shifted downstream, i.e., to the challenge of effectively executing resource-related processes. More specifically, we find that starting a business in the sense of coming up with a business idea and entering the market is perceived as relatively simple. Environments are rich in unexploited opportunities, and leveraging these opportunities is first of all a matter of having access to start-up resources. Consequently, investigated microenterprise founders first learn to orchestrate relatively simple and informal 'micro-programs' for gathering resources. More specifically, we find instances of 'strategic micro-alliances' with other founders (e.g., one founder has means to produce jam, another founder has means to transport it to the market), or of founders starting several micro-businesses in parallel (e.g., run a farm, produce jam, open a shop, etc.). The RO blueprints for these programs are widespread and easy-to-identify, i.e., founders often copy others in their community. Through orchestrating these 'micro-programs', founders generate income and, depending on the success of their resource gathering efforts, gradually build the foundations for subsequent growth by accumulating financial and physical capital (tools, a shop, etc.). The development literature discusses these behaviors as creative and risk-reducing livelihood strategies, especially among women, who tend to grow their businesses slow but more stable (Khavul et al., 2009; Spring, 2009). Based on the case evidence and prior literature, we therefore propose:

Proposition 1: In opportunity-rich, growth-constrained environments, microenterprise founders will first learn to orchestrate micro-programs to gather resources.

Over time, six out of the nine founders gained sufficient resources to make investments and grow (e.g., rent or buy premises, hire employees, expand markets). However, their organizations quickly faced new challenges: In several cases, larger orders could not be met due to a combination of weak infrastructure (e.g., power outages) and weak procurement and distribution channels (e.g., seasonality, lack of packaging material, etc.). Firm-internally, several

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instances suggest that the division of labor and the integration of effort became problematic (e.g., founders over-invested, struggled to coordinate tasks, and experienced theft as socio-economic conditions tempt employees to capitalize on organizational weaknesses). In response, founders expressed that they were 'shocked' by the new demands: While resource ownership gave them an initial advantage and allowed them to respond to appealing growth opportunities, they now struggle to sustain the organization. In-depth evidence suggests that this realization is an important sensemaking event (Weick, Sutcliffe, & Obstfeld, 2005). Specifically, it helps founders realize the need for more effective RO and changes the way they think about business management. This leads us to the following proposition:

Proposition 2: After organizational growth, microenterprise founders experience a personal 'shock' with regard to organizational demands. This experience creates awareness for effective RO as a central task for business managers.

While we find evidence that this 'shock' influenced the cognition of all founders experiencing growth, there are differences in how the founders and their organizations responded to it. In three of the nine investigated cases, founders made a growth attempt but either became insolvent or lost the majority of their employees, forcing them to pull the plug and retreat to micro-programs (either permanently or temporarily). In comparison, three founders managed to achieve microenterprise growth and sustained their organizations (i.e., maintained more than 10 employees). The latter have the following in common: First, they also experience a personal shock but seem to more rapidly recognize and make sense of the need for improving their RO (i.e., the speed of sensemaking). Second, they can draw on a wider range of experience to understand what led to the shock and how it can be fixed, including a) prior management knowledge from within the industry (e.g., from studying agribusiness) and from analogous domains (e.g., from being in military service), b) new management knowledge from actively managing the different businesses they operate (e.g., learning from the operation manuals of mobile financial services offered as a complementary product), and c) new management knowledge from vicarious learning (e.g., visiting competitors and/or extensive self-study of books written by successful entrepreneurs). Third, they devote more time and effort to managerial tasks than to operational tasks (including active search and design of business models and organizational processes). Evidence suggests that through these three interrelated processes, they seem to learn to adjust their RO blueprints in good time. Specifically, founders described that they began to continuously make 'fixes' (e.g., new operation manuals, hiring procedures, etc.) and learned to diversify more strategically (e.g., quit unprofitable businesses). With regard to what founders learn to overcome microenterprise growth challenges, we thus propose:

Proposition 3: Microenterprise founders that a) rapidly make sense of the need for more effective RO, b) build management knowledge from industry-specific management experience and management experience in analogous domains, and c) fully commit themselves to managerial tasks, are more likely to implement effective organization processes and devise a successful diversification strategy.

DISCUSSION

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We use in-depth data from Tanzania to investigate what microenterprise founders learn from organizational process experience. Our findings point towards at least two important implications for the relationship between environment, founders' experience gains and learning, and venture performance. First, the microenterprise founders investigated operate in opportunity-rich but growth-constrained settings, in which access to resources and organizing process experience seem to play out differently than in Western settings. Notably, founders in Western settings can usually count on well-developed environments for doing business. Their challenge lies in bringing novelty into saturated markets that are often characterized by fierce competition, and, subject to the industry, high entry barriers due to start-up capital requirements, legal compliance, and need for social acceptance. This puts a premium on innovative ideas and founders' ability to learn how to gain sufficient legitimacy (cf. Aldrich & Fiol, 1994). In stark contrast, our findings illustrate how founders operating microenterprises in young emerging economies face a different challenge: Resources remain scarce, and the formal institutional environments for doing business are not well developed. At the same time, however, support for entrepreneurship is on the rise and markets are undersupplied, making it possible for those founders who have access to resources to find a ready market for a variety of products (cf. Carney & Gedajlovic, 2002). The businesses created may not be very innovative (e.g., copying others) and largely informal (incl. organizational processes). Hence, the same institutional voids that constrain formal business activity also lower entry barriers and open up opportunities for entrepreneurship (cf. Mair & Marti, 2009). Learning how to sustain organizational growth under external and internal pressures is, however, indeed a major challenge for founders operating in these environments. Differently put, a small business' chance of survival hinges on having access to resources and executing resource-related processes well.

Second, our findings suggest that the personal shock that founders seem to experience upon realizing just how difficult it is to execute organizational processes well in their environment seems to be an important driver of founders' learning. However, due to environmental conditions – many opportunities and significant advantage of having access to deployable resources – this experience can take place comparably late in the growth process, thereby increasing the chances of potentially unnecessary and costly organizational failure (i.e., consider that founders in other settings are more likely to 'fail' earlier or have experienced partners). In this regard, we find that only those founders who rapidly make sense of ineffective processes, gain management knowledge from different sources, and devote time and energy to managerial tasks, manage to sustain organizational growth. In spite of the limitations of our qualitative study, we believe that these insights gained can be transferred to other microenterprise settings and open up important questions for development practitioners as well as interesting avenues for further research. For example, studies may draw on our propositions when investigating 'near-failure' of new organizations (cf. Kim & Miner, 2007) or 'rapid cycling' between business opportunities as a trial-and-error strategy common among male founders with better access to resources and a higher willingness to take risks (Khavul et al., 2009).

REFERENCES AVAILABLE FROM THE AUTHORS