University of Stirling
Waswa Balunywa

Portfolio Entrepreneurs and Economic Growth: The Case of Uganda

A thesis submitted for the degree of Doctor of Philosophy

Abstract

Many developing countries have not benefited from the technological changes that have taken place over the last 30 years. Uganda has been no exception. The country continues to have over 30 percent of its people below the poverty line. This is despite the appropriateness of macro economic policy and government action in many of these countries. Even in the developed countries, slowness in growth has been attributed to lack of enterprise rather than policy and government action. For this reason, governments and multilateral institutions like the World Bank, have attributed the continued poverty or the slow growth to other factors like governance, institutions but more importantly, entrepreneurship.

Classical, and indeed neo-classical economists, did not pay much attention to entrepreneurship as a determinant of growth and therefore this relationship has not been explored in most of the research that has attempted to explain determinants of economic growth. It was Schumpeter who suggested that the entrepreneur had a role in economic growth but no empirical studies have been undertaken to verify this. Thus was until recently when the Global Entrepreneurship Monitor (GEM) studies were initiated in 1999 led by Paul Reynolds who had done some previous research in this area. The current GEM studies have focused on small firms and yet the model has existing large firms. This study identifies this gap and it is that gap that the study attempts to explain. Having no firm theoretical foundation, the study adopted an inductive approach using mainly qualitative techniques but also adopted quantitative techniques given the nature of the relationship among the variables.

Theoretical sampling was used initially to identify the study population. The study identified large scale portfolio entrepreneurs as a unit of analysis and Uganda being a small country, it was possible to assume some kind of laboratory conditions in which the study was undertaken. The study's overall aim was to establish whether a relationship existed between entrepreneurship and economic growth. To achieve this, the study examined the patterns of growth in the Uganda economy between 1962-2005, the opportunities, the macro economic policy in place, the opportunities that emerged and the role of the entrepreneur in those conditions. The study also examined the emergence of new industries in the economy, the start-ups and exits of firms in the respective industries and the role of the entrepreneur and how this related to economic growth. To secure the data, the study used a case study design for portfolio entrepreneurs combined with a survey for small and medium and corporate entrepreneurs. Unstructured interviews were conducted with portfolio entrepreneurs and self administered questionnaires were used for the other respondents. Secondary data were collected from numerous published sources.

The study confirmed that there existed a relationship between macro economic policy and economic growth which confirmed assertions by mainstream economists. The study also established that a relationship existed between entrepreneurship and economic growth. The Uganda economy as a small economy gives that ability to see the relationship. The study reveals, using the Uganda economy, that large scale portfolio entrepreneurs have an important role to play in orchestrating economic growth through their activities of start-up, job creation and infrastructural development.

The study further confirms that liberalization of an economy as in the case of Uganda creates opportunities and that these opportunities are seized by entrepreneurs. Portfolio entrepreneurs play a key role in this process. Technology too has an important role among other factors. As an industry is formed, many new firms enter it. This creates competition. Competition may lead to development of new technologies, products, services and processes. This leads to firm exiting the industry. The start-up and exit of firms in an industry leads to job creation and loss. It is this process that Schumpeter called the creative destruction where job creation and job losses that creates growth.

This study brings out the importance of the large scale portfolio entrepreneurs, how they start business, perceive opportunities, and compete. The conclusions from the study are that a relationship exists between entrepreneurial activity and economic growth, and that large scale entrepreneurs have a major role to play in an economy. They are job creators, tax payers, wealth creators, and through the multiplier effect. There is need for deductive studies in an attempt to confirm this relationship.

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Abbreviations

AIDS	-	Acquired Immune Deficiency Syndrome
ATMs	-	Automated Teller Machines
BBC	-	British Broadcasting Corporation
BMK	-	Bulaimu Mohammad Kibirige
BOU	-	Bank of Uganda
CBS	-	Central Broadcasting Station
CMB	-	Coffee Marketing Board
CNN	-	Cable News Network
CTV	-	Cable Television
DFCU	-	Development Finance Corporation of Uganda
DSTV	-	Digital Satellite Television
EAGER	-	Equity and Growth in African through Economic Research
FDI	-	Foreign Direct Investment
FM	-	Frequency Modulation
FRB	-	Federal Reserve Bank of Dallas
GDP	-	Gross Domestic Product
GEM	-	Global Entrepreneurship Monitor
GMBH	-	(pg.236)
HIID	-	Harvard Institute for International Development
HIV	-	Human Immunodeficiency Virus
IBM	-	International Business Machines
IMF	-	International Monetary Fund
KFM	-	Kampala FM
MGM	-	Metro Golden Meyers
MOFPED	-	Ministry of Finance, Planning and Economic Development
MTN	-	Mobile Telecommunications Network
NIC	-	National Insurance Corporation
NRA	-	National Resistance Army
OECD	-	Organization for Economic Cooperation and Development
PAYE	-	Pay As You Earn
PWICO	-	Pan World Insurance Company
TEA	-	Total Entrepreneurship Activity
TPSC	-	Turbo Prop Service Centre Ltd
TV	-	Television
UAIC	-	Uganda American Insurance Company
UBC	-	Uganda Broadcasting Corporation
UBOS	-	Uganda Bureau of Statistics
UK	-	United Kingdom
UMA	-	Uganda Manufacturers Association
UPC	-	Uganda People's Congress
UPTC	-	Uganda People's Transport Company
URA	-	Uganda Revenue Authority
USA	-	United States of America
USSIA	-	Uganda Small Scale Industries Association
UTL	-	Uganda Telecommunication Ltd
UTV	-	Uganda Television
VAT	-	Value Added Tax
WBS	-	Wava Broadcasting Station
WNFs	-	Wholly New Firms

CHAPTER ONE:

INTRODUCTION

*Entrepreneurship was especially viewed with ambivalence in African socialist countries, not so much because of its qualities as of its consequences. As Julius Nyerere, the first president of Tanzania wrote, "We have to encourage initiative in business, commerce and agriculture, without the vision of great individual wealth for the person or group concerned. We have not yet solved this problem. (**Nyerere, Freedom and Development/ Uhuru na Maendeleo: Oxford 1973: page 332)***

1.1 Background

Governments, in both developed and developing countries, have embarked on major programmes designed to harness and boost entrepreneurship. Underpinning these programmes is a now common assumption that entrepreneurship is associated with economic growth (World Bank Report, 1985; 1986; Reynolds and Maki, 1990; Storey, 1994; Wenneckers and Thurick, 1999; UK GEM Report, 2000; Uganda GEM Report, 2003; Audretsch, 2003; Plummer and Taylor, 2004; Africa Development Indicators, 2007).

Entrepreneurship gained prominence as an aspect of economic development during the difficult periods of the 1970s and 1980s in the United Kingdom (UK) and United States of America (USA). As many firms either closed down or relocated from these countries, shedding jobs in the process, there was a worry about the consequences on employment, the maintenance of which is one of the key economic objectives in most economies. Margaret Thatcher and Ronald Reagan, the respective leaders in these countries, promoted individualism in an effort to revive the faltering economies. Individualism, they argued, elicits initiative and innovation and promotes the pursuit of profit and this is what drives entrepreneurship. Developed countries therefore saw promotion of entrepreneurship as a method of stimulating employment to fill the gap left by the relocating or closing factories.

The research by Birch (1979) and Nelson (1986), which indicated that jobs created by small firms were the dominant source of new jobs in the USA at that time, stimulated worldwide interest in the potential of small business to create jobs. This role of small firms is found in research by Acs and Audretsch (1990), Audretsch (1993 and 1995) and Cohen and Klepper (1992), among others. Although much research sought to develop further our understanding of the job generation role of small firms, there were also critics. Much criticism centred around the robustness of the methodology adopted by Birch and his supporters (Curran, 1989). Other skeptics focused on the appropriateness of the 'small firm' as the unit of analysis. The link between small firms and entrepreneurship is often assumed but not necessarily justified. There are many owners of older small firms that are far from enterprising or growth oriented (Storey, 1994). The essential link is that most entrepreneurs create new ventures which are usually small when they start. As

Storey (1982) emphatically stated in 1982, it is new firms, not small firms, that are the main generators of new jobs.

Most empirical studies since that time have concentrated on understanding the process of how new firms are started. (Davidson, 2004) The main focus of interest, however, remained their effects on job creation (Wennekers and Thurik, 1999). New firms were also linked with "wealth creation", but this was not at that time systematically developed as a concept, or linked to wider issues of economic development or economic growth. Studies on the relationship between entrepreneurship and economic growth have been few and only started to gain momentum in the 1990s. These include studies by Paul Reynolds who subsequently leads the GEM studies in 1999.

Reynolds was one of the first researchers to pioneer the link between new firm dynamics and economic growth (Reynolds and Maki, 1981). His early studies in the late 1970s established that economic development was highest in areas where rates of new firm formation were high and accompanied by high rates of firm closure. The surviving firms made considerable contributions to new job generation. In the late 1990s, Reynolds led the first major attempt to test empirically the relationship between new firm formation and economic growth by establishing the Global Entrepreneurship Monitor (GEM) Consortium. The GEM model (discussed in section 1.5.3 and Chapter 2) has placed entrepreneurship, which it refers to as business start-up, as a key determinant of economic growth. There are other factors in the model but the concept of business churn, firm formation and death is of great importance.

While the developed countries lost jobs in the 1970s and 1980s and had to worry about new jobs, the situation in developing countries has even been worse. Developing countries have been characterized by high levels of unemployment and poverty (World Development Report, 2000/01; 2002/03). Many of them had adopted centralized planning in the 1950s and 1960s and established state corporations to create jobs and cause economic growth and development.

The experiment with socialism and mixed economies between the 1950s and early 1980s, including nationalization of companies or set up of government corporations to spearhead growth, did not work. These countries fixed prices and planned growth centrally (Nyerere, 1973; Berg, 1987; Richardson and Ahmed, 1987; Clifford, 1993; Guislan, 1997; Tellegen, 1997). This did not spur the growth that was anticipated. Most developing countries failed to generate sufficient growth to increase living standards (Clifford, 1993), and despite this effort, they were still dramatically worse off than the developed countries. This led to a rethinking of the correctness of these policies. This was particularly encouraged by the World Bank and International Monetary Fund (IMF) who made structural economic reforms a conditionality to aid and loans.

The World Bank and IMF imposed strict conditions on many countries in the 1980s. This was particularly so with developing countries that had experimented with socialist policies. This encouraged countries to reform their economies by promoting free markets and privatization, freeing prices, and a significant reduction of the size of the public sector. All these policies encouraged private initiative which puts emphasis on the role of the entrepreneur. Centralization through socialistic policies had failed to produce jobs and growth, thus, an alternative approach based on free enterprise capitalism was advocated. In this new approach, entrepreneurship, through private initiative, was seen to have an important role to play in causing economic growth, having a potential for creating employment and poverty alleviation. The World Bank has been an advocate of this new approach (World Bank Reports, 1985; 1986; 1996).

The economic results from this reform have tended to vindicate the free market approach. African countries like Ghana and Uganda which have pursued policies to promote entrepreneurship have been growing strongly. Uganda has grown at an average of 5% per year for over 18 years (World Bank Report, 1996; African Development Report, 2005). Individualism enabled by free market economics, has set free the spirit of entrepreneurship which has led to start-ups, job creation and possibly explains the economic growth in these economies. Entrepreneurship has come to the fore as an important factor as countries seek solutions to problems of reducing poverty or keeping economies growing (World Bank Report, 1985; 1996).

The Organization for Economic Cooperation and Development (OECD), in a document entitled *"Fostering Entrepreneurship"* (1998) stated that entrepreneurship was central to the functioning of market economies and that entrepreneurs were the agents of change and growth in a market economy.

Despite the apparent success of free market approaches in some African countries, the role of entrepreneurship in this development is not very clear. Most economic theory from neoclassical economics does not strongly predict that entrepreneurship has a role. Theory from the Austrian School (see Chapter 2) does allow an important role for entrepreneurship in economic development and growth, but the mechanisms and processes by which entrepreneurship may translate into economic development and growth are poorly understood and have yet to be studied systematically, especially in the context of developing countries.

This study thus sets out to contribute empirically to the debate on the relationship between entrepreneurship and economic growth. This is the **dominant research question**. Although the issue has began to be addressed (notably by the GEM project) the approach has been deductive and quantitative. The true complexities of the relationship have not been established yet. This is a research gap addressed by this study. Uganda is a relatively small country and like a small town everybody knows everybody that matters. It thus has conditions ideal for an interesting "laboratory" in which to study and explore this relationship (*See 1.7.2*). The theoretical framework is drawn from both economic growth and entrepreneurship literature. The GEM model which combines both is the basis of this study.

1.2 Theories of economic growth

Classical economists led by Adam Smith did not recognize the role of entrepreneurs in economic growth. Smith (1776) dealt with issues of capital accumulation and division of labour. Neo classical economists also did not acknowledge the entrepreneur. Led by Marshal (1959) and Cassel (1925), they don't differ from the classical economist except, that besides land and labour, as proposed by the classical economist, they added government in terms of creating a right climate (Das Gupta, 1997; Audretsch, 2003).

The emergence of communist Russia and World War II increased government's role in the economy and the Great Depression led economists like Keynes (1964) to urge more government intervention. In 1956, Robert Solow drawing from the works of Adam Smith and others modeled the growth in the production function where growth is a function of capital and labour. The production function is subsequently expanded by Romer in 1986 to include knowledge (Romer, 1986).

It was the Austrian School led by Schumpeter which introduced entrepreneurship in the production function by relaxing the assumption of perfect knowledge and perfect competition proposed by the earlier economists. Acknowledged as the father of modern entrepreneurial thought (Campbell and Wilson, 1976) Schumpeter is supported by Kirzner (1960; 1973; 1979) and Baumol (1968; 1993; 2003). Kirzner argues that there are some people who are more alert than others and see unexploited gains in the economy. They see these as opportunities and exploit them. These people he calls entrepreneurs. He says these people have superior knowledge. Baumol, a neo-classical economist, breaks with mainstream economists when he argues that growth cannot be explained by the accumulation of various factors of production only, he says entrepreneurship has a role.

These propositions are dealt with in detail in Chapter 2. However, it suffices to conclude that the Austrian School opened a window to introduce entrepreneurship as a growth determinant. However, not much research has been done until recently to verify these propositions empirically. This poses a challenge on methodology as discussed in sections 1.7.1 and in Chapter 5.

1.3 Entrepreneurship

In introducing the individual micro unit as the unit of study, there has been a debate on whether it is entrepreneurs in general who cause growth or a specific kind of entrepreneur. Theories that explain entrepreneurs use traits and behaviours as explanations as to what entrepreneurs are and do.

Major contributors are Say (1924), Schumpeter (1929), McClelland (1961), Kilby (1971), Shapero (1975), Vesper (1987), Timmons (1989), Drucker

(1985), Hisrich (1987) and Chell (1995), among others. These works bring out the following as entrepreneurial traits; goal orientation, determination, initiative, problem solver, independent, risk taker, and innovator, among others. Later researchers move away from traits to behaviour. They argue that traits change with time and cannot distinguish between entrepreneurs and non-entrepreneurs (Gartner, 1985; Aldrich and Zimmer, 1985 and Grasley, 1986), McClelland (1961), Bygrave (1995), Drucker (1995), Frese *et al,* (1990); Westhead and Wright (1998) are among those researchers that argue that entrepreneurship is best described through behaviour.

The focus on the person of the entrepreneur as a unit of analysis raises the issue of different types of entrepreneurs as distinguished by their behaviours. This approach tends to put emphasis only on certain types of entrepreneurs as being more important for economic growth. As earlier noted, small businesses that are not growing do not create jobs or additional production. Such units do not contribute to economic growth although they contribute to the Gross Domestic Product (GDP). These are entrepreneurs who not only start a business, but grow it more quickly and not only one business but a succession of businesses (Storey, 1987). The literature has captured this by distinguishing different types of entrepreneurs. These are nascent, novice and habitual. Nascent are those considering to start a business. These are prospective. Novices are those who start businesses but have no previous experience. *(This is discussed in detail in Chapter 3)* Habitual are those who have business experience and include serial and portfolio entrepreneurs. Serial entrepreneurs are those with one business but have previous experience. Portfolio entrepreneurs are those who have, at a particular time, a multiplicity of businesses (Birley and Westhead, 1993; Kolvereid and Bullag, 1992; MacMillan, 1986; Rosa *et al*, 1999(a); Webster, 1997). This study pays special attention to portfolio entrepreneurs, which have been hypothesized to be crucial instigators of wealth creation in the economy (Scott and Rosa, 1999).

1.4 Entrepreneurship in large firms in Africa

The study of entrepreneurship worldwide has tended to focus mainly on small firms (Carland et al, 1984; Drucker, 1993). In fact, there has been a tendency to equate entrepreneurship with small firms in many developing countries, especially in Africa. There has been more emphasis on the small firm sector because of the role of the informal sector. While there are large firms, in many African countries, these are usually, although not always, branches of multinational companies. It is therefore not surprising that entrepreneurial research in Africa has been focused on the small firm sector. The word "small" is relative. What is small in developed countries may be large in developing countries (Carland et al, 1984). In the USA, a firm with up to 500 employees is small and yet in Uganda that is a big organization (Uganda Investment Authority Report, 1996). Keeping these definitions in mind, businesses in Africa are generally small.

Since the 1970s most of the literature on African businesses has focused on the informal sector and small businesses, which numerically dominate business in African countries. It was assumed that improvements in the performance of this sector (e.g. more of these businesses starting up, more growing rapidly) would result in more growth and development, (Harper, 1984, 1998; Mead and Liedholm, 1998; Tellegen, 2000). When growth appeared not to be occurring as rapidly as predicted through this sector, lack of skills and knowledge was attributed as an important cause of slow growth (King and McGrath, 1999; Leidholm, 2002). In particular, knowledge of how to start businesses and manage them is poorly developed in the informal sector. Subsequently a great deal of effort has been put into education and enterprise training (Nieman, 2000). Most of the donor funding in many developing countries has been directed to this (Easterly, 2003).

Despite this, the effectiveness of the informal sector and its contribution to economic growth is still being debated. The evaluation of the sector is complicated by the deterioration of the economic trading environment in Africa, particularly during the 1980s (Easterly, 2003; Mead and Liedholm, 1998). However, one factor which has not been considered closely, is the contribution of larger firms. Indigenous large firms have been assumed to be few in number, and foreign firms have been thought of as exploitative rather than developmental (the famous arguments against multinational companies). There has also been an assumption that the small and informal firms sectors are operating independently of large firms. The degree of interdependence between the two sectors is largely unresearched.

Assistance to business growth has thus focused on the informal sector. The main model of growth emerging from development studies literature has been based on the claims that there is no large business in African countries and therefore support should be for the development of small business and not entrepreneurship (Tellegen, 2000). The model has called for development of policies and facilities that support growth of small enterprises. This process has involved government and non-governmental organizations interventions to help the small and medium enterprises to survive and grow. The policy interventions that have been introduced include, improving access to markets, improving access to capital, skill development and access to infrastructure like electricity and communication facilities. This kind of approach tends to ignore large or even small but experienced enterprise owners who are also key players in the growth process.

Since the structural adjustment policies of the 1980s, most African governments have sought to liberalise their economies and to improve the physical, economic and education infrastructure to kick start economic development and growth. These measures are of benefit to all businesses, not just small ones. Indeed it could be argued that because they have more knowledge and resources, successful entrepreneurs who start large businesses are especially well-placed to take full entrepreneurial advantage.

Even in the developed countries the role of small businesses is coming under increasing scrutiny. Are they now really as big a driver of economic growth as they reputably once were? (Churchill and Lewis, 1983; Armington and Odle, 1983; Birch, 1979) Interest in small businesses as creators of employment was sparked off by the closure of big factories in the UK and USA as earlier stated. However, the jobs created by the small businesses, while they were important and significant to stave off unemployment, were not the only growth drivers. Large businesses were also drivers of growth (Baumol, 2003).There was a period in the late 1970s and early 1980s when small firms in the US and UK were net creators of jobs whilst there was a net loss of jobs in large firms, but this was an unusual period (Storey, 1994). By the 1990s, large firms once again assumed their traditional role as important creators of jobs, particularly quality jobs (Churchill and Lewis, 1983; Segerstrom, 1998). Many large firms had bounced back into profitability, largely as a result of being more entrepreneurial, dynamic and efficient (Kanter, 1989). In Uganda, and indeed in many African countries, (Tellegen, 2000) there has been an almost total neglect of the contribution of larger businesses and of the growth of high income earners who choose to go into business.

Large scale businesses formed by habitual and family entrepreneurs have been shown to make a large contribution to economic development (Rosa, 1997) but have not been studied in Uganda. Corporate firms, (especially multinational corporations), are assumed to be exploitative, high on power but low on enterprise. This image has some support from the early corporate entrepreneurship literature where large bureaucratic hierarchical corporations were termed “lumbering elephants” by Kanter (1983) and Pinchot (1986).

This image, however, is also ideologically driven in Africa, a reaction against the threat of neo-colonial economic exploitation, and espoused enthusiastically by the socialist regimes after independence. Many corporations today are much more dynamic entrepreneurial organisations and many senior managers in subsidiaries abroad have to be aggressively entrepreneurial to meet growth targets. Very little is known about corporate entrepreneurship in an African context, and we can only speculate on its true contribution to economic growth and development. This study is one of those attempts to study large scale businesses in an African economy.

1.5 Empirical studies on growth

Because entrepreneurship was not considered a factor in economic growth by leading economic thinkers, not much attention was given to it by researchers to empirically test its relationship with economic growth. Major empirical studies include those by Birch (1979), Reynolds and Maki (1981), Storey (1987; 1994) and recently by GEM. These studies assume there is and they have been testing a link between entrepreneurship and economic growth. Part of the reason for the dearth of studies of this relationship is the complexity of modern developed economies where exploring a micro concept can be challenging, let alone relating it to a macro phenomenon. Breaking away from mainstream economics to study a relationship not addressed by leading economists would also be steering in murky waters because of the criticism it would attract from the mainstream economist. Nonetheless, some studies have been undertaken.

1.5.1 **Studies by Storey on firm growth**

In the studies by Birch (1979, 1988) on job generation by small firms it was assumed that all new start-ups were equally likely to contribute to job generation. In a study of 638 companies from Cleveland, Storey and colleagues (1987) demonstrated that most of the jobs generated were due to the activities of less than 5% of firms who grew rapidly in their early years. These high growth firms, Storey speculated, were the real drivers of growth. This inspired further studies of small firms performance. Storey (1994) synthesized literature on firm births, deaths and growth and came out with recommendations on small entrepreneur policy but of relevance to this study was his treatise on firm births.

Storey concludes from the studies undertaken that it is very difficult to get concise data on firm births, especially of small business. He argues that recognizing the birth of a firm is a challenge. Storey discusses the two theories of new firm births, the industrial economics approach and labour market approach. (see Chapter four)

1.5.2 **Studies by Reynolds on firm growth**

Reynolds (1990; 1991; 1995) has various studies on births, deaths, expansion and contraction of business establishment. One such study he carried out between 1976 and 1988 in Minnesota, USA. Another, entitled *"Business*

Volatility and Economic Growth", which he carried out on behalf of the United States Small Business Administration and submitted a report in 1990 (Reynolds and Maki, 1990). Business volatility which Reynolds calls changes in establishment (births and deaths) and job gains and losses have positive correlations with economic growth. Reynolds and Maki (1990) argue that new businesses are formed while existing ones die. This results into creation of new jobs and loss of jobs as a result of this activity. Existing businesses may expand or they may contract. This also may lead into new jobs being created or jobs lost. Reynolds and Maki found positive correlations between the rate of firm births and deaths, and current and future economic growth. They also found a positive correlation between births and deaths and from the relationship they argue that volatility among business entities is important in studying growth. Reynolds and Maki argue that while births and deaths impact on growth, not all business births and deaths affect the economic system. The births of large businesses may have more impact than small ones. Similarly deaths of large businesses may have more impact on an economy.

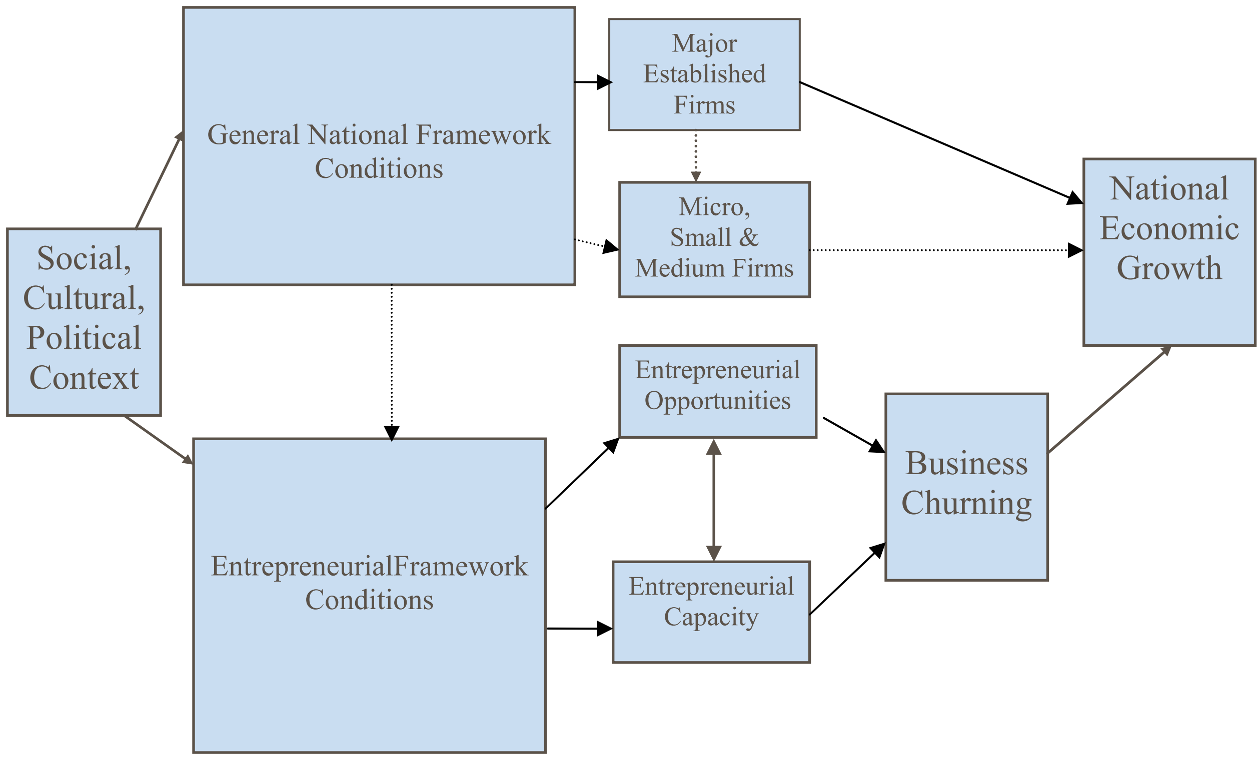
1.5.3 The Global Entrepreneurship Monitor (GEM) studies

An international study by the Global Entrepreneurship Monitor (GEM) started in 1999 and led by Babson College (USA) and London Business School (UK). It was initiated with a view to establishing whether there existed a casual relationship between entrepreneurship and growth (UK GEM Report; 2001). GEM emerged primarily from earlier studies by Reynolds on new firm formation and death. The study publishes a general and country reports every year.

The GEM model provides what it calls the general national framework conditions which, according to the model, determine the success of the major firms. Framework conditions are a label for macro economic conditions and all other factors which, in the existing economic literature, determines growth. They include macro economic policies that support growth like openness of the economy, efficient financial markets and the limited role of government. Physical infrastructure, flexible labour markets, effective governance, institutions and presence of management skills are some of the other conditions. Another key factor in the model is what they call the Entrepreneurial framework conditions. These are the factors that support entrepreneurial activities. These include availability of finance, government policies designed to support entrepreneurship and education and training for entrepreneurship.

The key assumption in the model is that economic growth is a function of those activities related to major existing firms and those related with the entrepreneurial process. The UK GEM Report (2001) indicates that the success of the major firm is determined by the national framework conditions and that existing firms contribute to growth. However, the report argues that the variations in growth in economies is partly explained by the entrepreneurial process which is driven by the entrepreneurial opportunities and motivation. The GEM studies do not attempt to study the major firms and they assume that the Global Competititiveness Studies (GEM) UK Report, 2000) does that.

Figure 1.1: **GEM MODEL**



***Source**: GEM UK Report 2001*

GEM attributes economic growth to new firm formation. These new firms generate production that leads to an increase in national output and growth. GEM initially focused primarily on the theoretical tradition that all entrepreneurs add value to economic growth. A plentiful supply of entrepreneurs was thus good for growth. However, GEM subsequently recognizes business volatility or churn as important for growth (Reynolds and Maki, 1990). Business churn is a function of entrepreneurial activity, perception and exploitation of opportunities through innovation and start- up (Rosa *et al*, 2000). Innovations and start-up puts pressure on existing firms. If they fail to innovate, they close and jobs are lost along with the closure. Growth emerges from the churn but closure is compensated for by the introduction and emergence of new and more efficient businesses. GEM studies have been evolving and have limitations that are now being investigated (Acs *et al*, 2005).

The departure of this study from the GEM studies is that it examines the major established firms and examiners the entrepreneurial opportunities and motivation in these firms and how they relate to economic growth. The GEM model appears not to assign entrepreneurial activities in major firms. Yet in the literature firm level entrepreneurial analysis is still possible by focusing on the individual who is the portfolio entrepreneur or the organization, which is corporate entrepreneurship. This study focuses on the individual.

1.6 Aims and objectives of the study

1.6.1 Overall aims of the study

The interest and motivation for the study of the relationship between entrepreneurship and economic growth emerged from the observations of the growth patterns in the Ugandan economy over the years. These were made in a study funded by the Harvard Institute for International Development (HIID) (2000-2005) that examined sustainable growth in African countries. The Uganda country team study had revealed that despite the right macro economic policies in Uganda the resultant economic growth rate was not sufficient to address the continued poverty in the country. The question arose then that if government was doing the right thing to cause and support development, what was the missing link. Examining Romers (1986) (see section 2.6.2) growth model, it was clear that technology or knowledge had a role. Schumpeter (1939) had attributed innovation to entrepreneurs and Kirzner (1973) had indicated that entrepreneurs had superior knowledge. The GEM studies had already started the studies in the relationship between entrepreneurship and economic growth. The World Bank (World Bank Report, 1985) had alluded to this relationship. This strengthened the interest in examining this relationship empirically since there were no such studies.

The current GEM studies have attracted many countries and researchers. In 2004, there were 49 countries. GEM has addressed some issues of new firm formation and job creation but, as stated in the previous section, not in the context of existing firms or the churn element in its model. This has left research gaps. There is need for more inductive studies to articulate and understand the issues not only raised in the GEM model but also to test relationships suggested by Schumpeter and others. There is a need for further studies to confirm and be able to generalize whether the relationship alluded to between entrepreneurship and economic growth exists. This need is more urgent in developing countries where poverty is still a big problem and countries are grappling with poverty and policies on how to reduce or end poverty in many of these countries worldwide.

The present study is an exploratory one that sought to primarily establish the relationship between entrepreneurship and economic growth in Uganda and further our understanding of this relationship. This is the first study seeking to explore the complexities of the relationship between entrepreneurship and economic growth. The few other studies are deductive and quantitative (UK GEM Report 2001; Audretsch and Keibach, 2004). It also examined the relationship between macro economic policy and growth.

As a study exploring a relationship between entrepreneurship and growth the study started off by attempting to do a survey of entrepreneurship. However, with time, this was found impossible and examining the gaps in the GEM model, the study focused on existing firms, singling out the portfolio entrepreneur.

1.6.2 The specific objectives of the study

a) To establish the macro economic and political conditions in the country over the period 1962-2005, the growth patterns, the types of opportunities, and the role of entrepreneurs in the economy

   i) To ascertain the trends in the growth in the Ugandan economy since independence in 1962

   ii) To establish the macro economic policies that were in place over the period

iii) To establish the relationship between macro economic policy, political factors, and growth

iv) To establish the behaviour of entrepreneurs during the different periods of trends in the economy

v) To establish the opportunities that emerge in different periods that contribute to growth and how the entrepreneurs react and align to them

b) To establish the types of entrepreneurs who emerge in any economy to exploit the opportunities and their contribution to the economic growth process

i. To ascertain which type of entrepreneurs react to the different opportunities that emerged in the economy

ii. To ascertain the role of large scale portfolio entrepreneurs in the Ugandan economy

iii. To establish the characteristics of the successful large scale portfolio entrepreneurs and what we learn from them

iv. To establish how these entrepreneurs use the knowledge and experience they gather in managing their businesses

c) To establish the types of industries that emerged in the economy and the role of the entrepreneur in the start-up, the role of firm birth and death, churn in economic growth

i. To establish how the business churn contributes to the creation and growth of new industries in the Ugandan economy

ii. To establish how the churn contributes to economic growth and the role of entrepreneurs

1.7 Approaches to the study

1.7.1 Methodological challenges

There has been growth in the Ugandan economy averaging five percent per year over the last 18 years (Kasekende, 1997; Collier, 1997; Background to the National Budget 2000/1; 2004/5). Some sectors of the economy, like Banking, Industry and Insurance, have grown by over 15%. However, some, like agricultural production havs been low and at times negative due to weather conditions prevailing in the country in specific years. This, in turn has had a dramatic effect on GDP as agriculture has occupied a major place in Uganda's developing economy. As industry and services grow, it is expected that the relative contribution of agriculture to GDP will decline like has been the case in developed countries over the years.

A large component of the Ugandan economy lies in the informal sector. The majority of business owners are meso or small who are not registered. Many are seasonal and cannot be traced. About 25% of the country's GDP is non-monetized. It is production for self consumption, so it cannot be traced properly in economic records. About 45% of the GDP is agriculture and much of this is in the informal sector (Background to the National Budget 1988/89, 1999/2000). It is difficult to capture much economic activity in records. This confirms Storey's findings (1994) that the informal sector is not easy to document. The study was thus able to leave out the non-monetized and informal sectors. This gave opportunity to study the formal sector and since Uganda is a small economy, the study was to trace the personalities who had driven the growth in Uganda. This enabled the study to relate entrepreneurship to growth.

Rosa *et al* (2006) illustrated that many preconceptions can emerge when deductive approaches are applied uncritically. This has certainly been the case in terms of the GEM research, which has experienced considerable difficulties in trying to test the model using data derived from a measurement instrument designed with developed countries in mind, but nevertheless applied to developing countries. It is usually premature to apply deductive approaches without them being preceded by a long history of theory development, and the development of rigorous valid and reliable concepts and measurements. In the case of researching the relationship between entrepreneurship and economic growth, neither condition is met. Theories and concepts are still being developed and measurements are far from being rigorously validated.

For these reasons an exploratory approach was taken for this study, in which one key element of the GEM model is being empirically explored, that of entrepreneurial activities within existing businesses. Within this conceptual area, there is a focus on one group of entrepreneurs in particular, that of large scale portfolio entrepreneurs. Originally the research sought to cover not only portfolio entrepreneurs, but also corporate entrepreneurs and corporate venturing by smaller corporations. Although some data was collected on these groups, it was decided to exclude them from the thesis, to narrow down the scope. The data is used only in the study of the churn.

Considerable data was also collected on business churn in Uganda, particularly in industries where leading portfolio entrepreneurs had played a leading role in development. This was analyzed with special reference to the business churn aspect of the GEM model. This remains an important aspect of the research in explaining how growth emerges.

The exploratory inductive approach adopted is not purely qualitative. Economic growth, the key dependent concept lends naturally to quantitative definitions. Indeed, there are global quantitative definitions of economic growth and development. However, the role of entrepreneurs and the complexities of the relationship with economic growth cannot easily be reduced to quantitative measures until some patterns emerge. One of the methodological challenges of this study was how to relate meaningfully a quantitative dependent variable with a qualitative one, yet, the literature has already attributed other independent variables like labour or capital to it. The use of the laboratory framework was designed to facilitate this difficult task.

The "laboratory" conditions in Uganda (see below) provide a framework in which the activities of leading portfolio entrepreneurs can be monitored, described and related to patterns of economic growth in the Ugandan economy. This research was based on a series of in-depth case studies using data from some secondary sources and data from in-depth unstructured qualitative interviews. In this way the complexity of the relationships between entrepreneurs and economic growth could be examined in detail.

1.7.2 Uganda as a case study

Uganda, as a small economy, provides an opportunity to study this phenomenon of entrepreneurship and growth in some kind of a laboratory condition. The country's GDP is less than the annual sales turnover of many multinational companies. This makes it easier to trace entrepreneurial activity in the economy in areas where growth is taking place. It is possible to trace industrial production. Forty five (45) percent of the country's manufacturing production comes from 19 establishments (Uganda Bureau of Statistics Report 2002). Besides the size and nature of the economy, the other reason that enables the study of the economy more clearly are the periods of political and economic development. The Ugandan economy has gone through unique periods and events which make the study distinctive. It has three major socio-political and economic phases which are clearly distinguishable with clear patterns of economic performance. These include: a) the post independence period, 1962 to 1972, b) the Idi Amin period of 1972 to 1980 and the post-Idi Amin period of 1981-1985, and c) the Museveni era of 1986 to date.

Another factor that justifies the laboratory case is the rapid growth of the country after years of decline and stagnation. In the 1970s, the economy declined (Revised Recovery Programme, 1981; Background to the National

Budget, 1988/89). In the early 1980s, the economy more or less stagnated. This was followed by growth of about five percent per year for over 18 years. The growth is visible and measureable in macro terms (Background to the National Budget, 2004/5).

Related to the growth that has been taking place in the economy, are the clear key economic actions and decisions that have been taken over the years by government, for instance liberalization, legislation, decentralization and the promotional effort to attract investments into the country. All these decisions and actions can be identified clearly. These are the major reasons that make a case for the laboratory as a design of the study.

As the study was exploratory and as it developed, emphasis went to the study of portfolio entrepreneurs. These are those multi business owners who have had a major impact on the economy, some of whom could be traced over different periods of Uganda's economic history. The emphasis on portfolio entrepreneurs is because they are reported to have a larger contribution to growth than other types of entrepreneurs (Rosa and Scott, 1999). They emerged in the course of the study although there was no specific emphasis on them at the start of the study. This is an important group of people responsible for multiple start- ups based on opportunity and who actually create wealth (Ucbasaran *et al*, 2003).

In Uganda, large-scale portfolio entrepreneurs are easily traceable. There are businesses and business people and families in Uganda that operated throughout the country's identified three periods. These are likely to be habitual and corporate entrepreneurs. These are entrepreneurs who have been economically active even in periods when policy and the environment may not have been favourable for business activity. Rosa and Scott (1999) cite, the Virgin Group, a holding company with over a hundred companies, as one of the companies that have caused growth in the UK. The Virgin Group is centred around one driving entrepreneur, Richard Branson. He is a portfolio entrepreneur. It is this type of entrepreneur who could explain the visible growth in the Uganda economy over the last 18 years. There are many well known portfolio entrepreneurs and their families who have visibly contributed to the Uganda economy in recent years, including Wavamunno, Mulwana, Alam, Madhvani, among others. It is these types of entrepreneurs who despite the environment and policy perceive opportunity and seek to exploit it to create value and wealth (Boyd, 1993; Parsons, 1995; Kealey, 1995).

1.8 Importance of the study

My work is greatly influenced by economists who attribute growth to entrepreneurship. This study focuses on entrepreneurship as the key success factor in the growth process. By studying the role of entrepreneurship, the study hoped to draw attention of other researchers and policy makers to the importance and, indeed, significance of entrepreneurship in the growth process especially in the developing countries. This is the point of departure from existing literature, which puts emphasis on policy as a determinant of growth especially in the developing economy. The study draws on GEM as its theoretical framework although the study variables and approach were different.

The study reveals the different types of entrepreneurs and highlights the importance of portfolio entrepreneurs. The study highlights the debate of traits versus behavioural aspects of entrepreneurship and indicates the aspects that are trainable. It is hoped that this will lead to further research in these areas. The study will not only benefit scholars in their study of the elusive concept of entrepreneurship but will also assist policy makers in evolving policy. The study should also benefit educational institutions that mount educational and training programmes in entrepreneurship.

1.9 Contribution of the study

The dominant research question was whether a relationship existed between entrepreneurship and economic growth. This came against a background of emphasis on macro economic policy in most literature on growth. This study explored the relationship between entrepreneurship and growth in both macro and micro contexts. Reynolds, Storey, and GEM studies had already alluded to this relationship. Their studies are however primarily macro. It has not been possible to trace the specific contribution of an entrepreneur to economic growth. This study contributes to knowledge on the role of portfolio entrepreneurs in the economic growth and development process. The study reveals that while policy is important, the actual growth is instigated by those who start businesses. The study further reveals that the business churn that results from entrepreneurial activity also causes growth, confirming what Schumpeter called *"creative destruction"*. The study has also unpacked some of the complexities in the relationship between entrepreneurship and growth. The study enables an understanding of the entrepreneurial activities that leads to growth and even those that are actually growth like business start up and job creation. This should lead to better deductive studies to unravel the complexity.

1.10 **Organization of the study**

The study consists of nine (9) chapters. Chapter 1 is the introduction giving the objectives of the study and the theoretical framework underpinning the study. It also gives the nature and scope of the study setting the background for the work that has been undertaken. Chapters 2, 3, and 4 consist of the literature review. Chapter 2 reviews the theories of economic growth and provides a setting for an analysis of both macro economic policy and entrepreneurial activity. Chapter 3 reviews the literature on the portfolio entrepreneur who is singled out for study as the micro unit. Chapter 4 reviews the literature on churn. Growth in relationship to the entrepreneur is associated with firm start-up and closure. This chapter reviews the literature on firm start-up, industry growth, competition, and the role of the entrepreneur in these processes.

Chapter 5 is the methodology chapter which states how the work was undertaken, sources of information and analysis of the data. Chapter 6 is the first chapter on the findings and is the illustration of the laboratory case. It reports on the macro economic policies over the study period and the resultant growth in the economy or the lack of it. This chapter deals primarily with macro issues. In particular, it relates inductively to fluctuations of entrepreneurial supply and the kinds of entrepreneurs with fluctuations in economic growth. Chapter 7 reports on the findings of the portfolio entrepreneurs giving the selection of the case studies and their contributions to growth in the economy. A range of factors that indicate growth are used including tax contribution, employment, creation of new firms, the creation of new industries and the multiplier effect. Chapter 8 reports the findings on the churn in selected sectors and industries in the economy. Chapter 9 is the summary and conclusions.

There are five (5) appendices. Appendix 1 is the list of individuals and companies interviewed or to whom questions were sent. Appendix 2 is an interview guide for portfolio entrepreneurs along with a questionnaire actually advanced and Appendix 3 presents the questionnaires used for the novice and serial entrepreneurs. Appendix 4 was for corporate entrepreneurs and Appendix 5 provides the list of companies for each portfolio entrepreneur.

CHAPTER TWO

THEORIES OF ECONOMIC GROWTH

2.1 Introduction

This Chapter discusses the theoretical framework for economic growth and development and highlights the features and problems of developing countries. It further discusses the basic theories of economic growth and highlights the economists who introduced entrepreneurship in the debate of the determinants of economic growth. Selected empirical studies relating entrepreneurship and economic growth are reviewed.

The industrial revolution, a period from the 18th to the early 19^{th} century, changed the face of Europe and indeed the Americas. This brought in its wake socio-economic and cultural changes which moved nations away from agriculture to industry, but most important it raised the standards of living of the people. In the first part of the 20^{th} century many economists started realizing that most of mankind did not enjoy a high standard of living as that enjoyed by the industrialized countries. Attention to this problem was drawn by Colin Clark in his quantitative study Clark (1939). At this time and immediately after the World War II, there were concerns about the reconstruction of Europe after the war. Attention was turned to Asia, Africa and Latin America after the war. A lot of effort has since that time been put into the process of developing these countries. The formation of the United Nations and its agencies like the World Bank, International Monetary Fund

(IMF) and International Labour Organization (ILO) among others provided an avenue for addressing the development issues in these countries.

Despite this effort, many countries around the world remain poor. Almost one half of the worlds' population of six billion live on less than two dollars a day (World Development Report, 2000/01). Many countries today are said to be underdeveloped or referred to as Third World countries. These are countries which are typified by low incomes, are dependant on export of a few major exports usually of agricultural products. They usually have high illiteracy rates, high population growth rates and unstable governments (Jhigan, 2005). This has led to the study of how the poor nations can transition from subsistence to industrialized economies. The desire to transform these countries led to interest in the field of development economics. The focus of development economics was on the methods of promoting economic growth and improving the lives of the poor people (Bell, 1987). The theories have foundations in Mercantilism which was developed in the 17th century and the related theory of economic naturalism associated with Alexander Hamilton and Henry Charles Carey. But it is the post war theories that are at the heart of the studies which were authored by Simon Kuznets and Arthur Lewis. The early theory of development economist was formulated in the 1950s by W. W. Rostow (Rostow, 2003) in the stages of growth, a Non-Communist Manifesto following the work of Karl Marx. These stage theories posit that there are stages of growth through which countries go through. The Harrod-Domar Model provided the mathematical illustration of these theories (Easterly, 1997). Among the modern theorists are Amartya Sen and Joseph Stiglitz who are Nobel Prize winners who contribute to the debate (Stiglitz, 1994; Sen, 1999).

The classical economists also emerged and are responsible for the modern conception of economic growth. They began with the critique of Mercantilism especially the physiocrats who emphasized agriculture. Led by David Hume and Adam Smith, they extended the notion that manufacturing was central to an economy and growth. (Smith, 1937)

The neo-classical economists have their idea of growth modeled in the Solows growth model (Solow, 1956). The model involved a series of equations showing the relationship between labour, time, capital goods, output and investments. This was the first attempt to model long-run growth and it gave technology a more important role than accumulation of capital.

Unsatisfied with Solow's explanation, Paul Romer proposes a model that includes a mathematical explanation of technological advancement (Romer, 1985). The model endoginizes technology and incorporates human capital, which unlike physical capital in Solow's model has increasing rates of return.

Since then, as stated, the gap between the rich and poor has been growing bigger. In the developing countries, the number of the poor has been increasing. Despite all the effort put in by various governments, poverty has continued to exist. Various models and conditions have been put forward to explain economic growth or its absence. The World Bank in its report, (2001/02) has posited that growth is the outcome of countries' initial conditions, its institutions, policy choices and the external shocks they receive. The report shows that there is evidence that growth also depends on education and life expectancy especially if the country is low income.

Among the policy choices mentioned by the Bank is openness to international trade, sound monetary and fiscal policies, a well developed financial system and a moderately sized government. Aid and the internal and external trade shocks play a role. The factors that lower growth rates are reported by the World Bank to be wars, civil unrest, and natural disasters. Besides these, macroeconomic volatility, adverse terms of trade shocks, poorly sequenced reforms can lead to macroeconomic disruptions and slower growth. The World Bank also cites institutional factors like evidence of rule of law and absence of corruption as factors that lead to growth. Geography is also said to influence growth. Remote, landlocked countries tend to grow more slowly. The different economic models reveal that capital formation is an important vehicle. Human capital which is the quality of the human resource, represented by the level of education and training of people has also become part of the capital formation process. Capital formation is determined by the savings rate of the country and the conversion of those savings into investments. Other barriers to growth include the role government plays. This is the ability of government to create and maintain political stability and peace.

The list of factors which may influence economic growth has been growing in recent years. For example, good governance and social capital are among other factors that have been added as growth drivers in recent years (World Bank 1985; Collier, 1996; and Goldsmith, 2000; EAGER Reports, 2000). The one factor that has received little attention in mainstream economic thought is entrepreneurship. There is no mention of the entrepreneur or his or her role in the mainstream economic growth literature. The stress is on exogenous macro environmental and institutional factors rather than the role of individuals.

It is not that entrepreneurship is the only factor associated with economic growth, or that non-entrepreneurial factors are not important. Rather the issue is how far entrepreneurship does have a place and whether it is a major factor. Neo classical economists and Austrian economists differ widely on this. In this Chapter the nature of economic growth and the role of entrepreneurship as a growth factor will be reviewed in detail.

2.2 What is economic growth and/or development

Economic growth has now become a pre-occupation of all governments world wide. For the developed countries, growth is important to stem off unemployment and related economic irritants. For the developing countries,

growth is crucial for the transformation of society. Many developing economies are today characterized by abject poverty (Jhigan, 2005; World Development Report, 2000/1; African Development Reports, 1998; 2004; 2007; African Development Indicators, 2007). This disparity in societies that has led to dividing the world into rich and poor countries is of concern to many people especially the leaders in both the rich and poor countries. Growth will reduce or eliminate abject mass poverty among the populations and will transform the poor societies raising the standards of living of the population. Economic growth has been a concern to governments and multilateral institutions like the IMF and World Bank as countries and institutions debate the world inequalities in incomes, the rampant poverty, and try to find solutions to it (Mankin et al, 1992; Todaro, 1996; Barro, 1998).
Economic growth is the quantitative sustained increase in a country's per-capita output or income which is accompanied by expansion in the country's labour force, consumption, capital and volume of trade (Jhingan, 2005).In some literature, economists do not distinguish between economic growth and economic development, however, in others they do. Although there is some debate about the nature of this distinction, the general consensus is that "economic development" is a more generic concept than "economic growth"

Jhingan (2005) defines economic growth as quantitative changes in economic wants, goods, incentives and institutions. Economic growth is thus a quantitative increase in production. An economy may grow through the increase in production levels and availability of more goods and services for consumption, yet poverty may even increase because the incomes are concentrated in a small number of people who enjoy these goods and services. If there is no improvement in living standards of people generally, there may be no development. Other economists have also attempted to make a distinction among the terminologies. Schumpeter (1934) defines economic development as a discontinuous and spontaneous change in the stationary state which forever alters and displaces the equilibrium state previously existing. While growth is a gradual and steady change in the long run, which comes about by a gradual increase in the rate of savings and population.

Kuznets (1965), in his Nobel memorial lecture, defined economic growth as a long term rise in capacity to supply increasingly diverse economic goods to its population. This growing capacity is based on advancing technology and the institutional and ideological adjustment that it demands. Maddison (1982) makes a distinction between the two terms by saying that the raising of income levels is generally called economic growth in rich countries and economic development in poor ones.

Freidman (1972) defines growth as an expansion of the system in one or more dimensions without a change in its structure while development is an innovative process leading to the structural transformation of the social system. In current economic literature, there is not much discussion of what concepts mean. The debate appears settled on those differences.

Economic growth is therefore the quantitative changes in an economy including changes in goods and services produced and consumed. The change may be positive or negative but is induced by institutional activities of an organization, management and production. This study focuses primarily on how positive economic growth can be achieved in the poorer countries. However, aspects of development also emerge.

2.3 Developed and developing countries

The world is divided into the countries that have grown and developed, which are referred to as rich industrialized countries and those which are middle income and the poor ones. The latter two are usually referred to as developing. The developed countries transformed from agrarian economies which depended on subsistence to industrialized countries with a factory system (World Bank, 2000/01). This transformation started with the industrial revolution in the 18th and 19th Centuries and by the turn of the 20th century, most of the European and North American countries had transformed. Economic growth was accompanied with policies of redistribution of incomes to remove abject poverty. The focus of economic theories was therefore on these countries. Developing countries on the other hand are those where the economy has a large agricultural sector and are characterized by subsistence production. Industry and services constitute a smaller part of the country's GDP.

It was not until after World War II in the 1940s that economists started taking interest in countries that were politically resurgent in Asia and Africa about issues of growth and development. Existing theories and prescriptions were more relevant to those Western countries which had already industrialized. In most of these resurgent countries, poverty was widespread and it was seen as a threat to prosperity among the wealthy nations. Accelerating of growth in these countries was seen as an urgent matter (Jhingan, 2005). The resurgent countries were at that time also getting independence from their colonial governors and were eager to attain high levels of growth in their economies. The ideological divide at that time between the capitalist west and socialist east caused countries to prefer one ideology to another as a growth determinant. While some developing countries adopted socialist policies, others adopted a combination of free market along with socialist policies in an effort to increase the rate of growth in their economies.

Economic growth has therefore been an issue of concern to economists and indeed governments for years as they attempted to seek ways of removing poverty amongst the communities of the underdeveloped countries (World Development Reports 2001/2; 2002/3; 2003/4; African Development Reports, 1998; 2004; 2007; African Development Indicators, 2007). The word developing country, is now used because it sounds more respectable since the words underdeveloped or poor or backward may be seen as reprehensible. The words “Third World” have also been used in the same respect where the first world are those high income countries, second are the middle income countries and third world are those very poor countries.

In conclusion, making a distinction between economic growth and development appears to be a useful one. The study keeps a distinction between the two terminologies. Economic development is used as a wider term that includes economic growth. Economic development is the transformation of societies where the general standards of living of people in a country are increased on a sustained basis. There is a wider distribution of the growth (income) taking place in the economy among the population. On the other hand, economic growth is simply an increase in production, an increase in the quantity and variety of goods and services produced. The aspect of distribution of growth to the population is not considered.

2.4 Indicators of under-development

Concern with growth arises from the nature and structure of the economy and the living standards of the people (Lewis, 1970). When there is poverty among people, high unemployment and even absence of goods and services demanded by people the issue of growth is of importance. There are of course differences in the degree of development and of poverty in different economies. Arab countries with a lot of oil are rich and have a high per capita income yet they are not developed in terms of the technological advancement and industrialization. In most other developing countries, per capita income is low but they also do not enjoy advantages of technological advancement.

These are worse off. Despite these differences there are different approaches to determining whether a country is developed or not. Various criteria may be used to define underdevelopment and the following are some of the key indicators:

- **Ratio of industrial output to total output in an economy:** Countries with a low ratio of industrial output to total output are considered underdeveloped, (Jhingan, 2005; African Development Report, 1998). Such countries have more agricultural output. This is evident in their GDP. In Africa, manufacturing's contribution to GDP averaged less than 12 percent in the 1990s (African Development Report, 1998; 2004; 2007; African Development Indicators, 2007) Growth therefore is a reduction in the ratio of agricultural output and an increasing level of industrial output and output in the service sector. When discussing economic growth, it is the increase in industrial output that is focused on.
- **Low ratio of capital to per head of population:** This is also another indicator of underdevelopment. It is not the absolute stock of capital to population but it is ratio per head of population. The capital stock of a country is its industrial base as a result of investments made. It gives the productive capacity of a country. Developing countries do not have no large industrial establishments, shipping lines, heavy equipment, manufacturing equipment and even the financial assets that come with increased industrialization. Capital stock relative to the population is thus low. This is an indicator of underdevelopment. Capital is therefore a necessary but not sufficient condition for development. Again in

examining indicators of growth in an economy, the growth in capital stock is an important indicator of economic growth.

- **Poverty**: Underdeveloped countries are characterized by a high rate of poverty which is associated with unexploited natural resources, shortage of modern capital goods and equipment, obsolete production techniques and other social economic factors. Populations in these countries have either no income or have low incomes per capita. Because of this, they have no propensity to consume products that would make them enjoy a higher standard of living, it leads to a vicious circle (Jhingan, 1997; Todaro, 1997; African Development Report, 1998; 2004; 2007; African Development Indicators, 2007; World Development Report, 2000/1, 2002/3). An increase in per capita is therefore an indicator of economic growth as people are emerging out of poverty.

2.5 Characteristics of an under-developed or developing economy

The key indicators of underdevelopment give the characteristics of underdeveloped economies (Lewis, 1970; McGranahan, 1972). It is these indicators that the economic growth models seek to change. These indicators include low incomes, agriculture as a main stay in the economy, among other factors as discussed below.

2.5.1 **Low incomes**

Developing countries are poverty ridden. They generally have a low Gross National Product (GNP) per capita. The *World Development Reports, 2000/1; 2002/3; 2003/4* indicate that these countries have a higher percentage of world population and yet produce less than those with less population. Of the world's 6 billion people, 2.8 billion almost half, live on less than US$2 per day and 1.2 billion live on US$1 per day, most of these are in Africa and Asia (World Development Report, 2000/1). In assessing poverty indicators, absolute poverty makes more meaning in understanding the nature and magnitude of poverty. Absolute poverty is not reflected by low incomes only but also by poor health, poor clothing, poor shelter, lack of education and malnutrition among other factors. In the developing countries, people have generally a low standard of living, spend most of their incomes on food, have negligible clothing with no safe drinking water, and have no access to education (World Development Report, 2000/1; African Development Indicators, 2007). Recent studies in Uganda, part of a World Bank Study, summarize this as *Vulnerability of People* (Learning from the poor, MOFED Report, 2002; World Development Report, 2000/1). Economic growth is intended to address these features.

2.5.2 **Agriculture as the main occupation**

In underdeveloped countries the majority of the people live mainly in rural areas and agriculture or pastoralism is their main occupation (African Institute of South Africa, 1997/8; 2001/2; African Development Report, 1998; 2004;

2007; African Development Indicators, 2007). In most of the underdeveloped countries, over two thirds of the people live off the land. In these countries, agricultural production is carried out with "low level technology" methods of production and has thus low productivity and is therefore uncompetitive. Most of these countries produce basic raw materials and food stuffs like tea, coffee, rubber, and palm oil, among others. They do not add value to these items before export and thus get low value in international trade. The African Development Report (1998) reported that agriculture dominates most African economies contributing substantively to GDP, employment and foreign exchange generation. At that time, it reported that agriculture accounted for over one third of GDP in East and West Africa and in some countries, Somalia, Uganda, Ethiopia, it accounted for over 50 per cent. It also reported that the sector employed over 70 per cent of the active population.

2.5.3 A dual economy

Most underdeveloped countries have both a market economy and a subsistence economy. The market economy is urban based and developed with all modern amenities of life, mobile phones, computers, latest vehicles and tall buildings, among others. The subsistence economy is backward and mainly agro-based. This economy is engaged in agricultural production characterized by backward techniques. It also has no organized market. The majority of the population lives in the subsistence economy and are the poor lot without basic amenities. It is reported (see section 2.5.2) that seventy percent of the population in many African countries live in rural areas and are poor.

2.5.4 Underdeveloped natural resources and economic backwardness

Underdeveloped countries usually have unutilized, underutilized or, at times, misutilised natural resources. Many have land, water, minerals which are siphoned away without giving benefit to the country where they are mined (Collier, 1997; World Development Report, 2001/2). In some cases they are underdeveloped because of the inaccessibility or lack of technology or lack of capital to exploit resources. Natural resources thus lie idle or are not utilized for the benefit of the population.

Underdeveloped countries are characterized by factor immobility, labour inefficiency, limited specialization, low trade volumes which result into low incomes and low productivity. Compared to the developed countries, the quality and quantity of goods consumed is low, means of production are obsolete and limited, and consumer products are produced with low level technology (World Development Reports, 2000/1; 2001/2).

2.5.5 Demographic features

A key feature of developing countries is the rapidly increasing population (African Institute of South Africa, 2001/2). These countries have high birth rates and, due to advancement in medical sciences, death rates have declined sharply. This has resulted into a high growth rate of the population. The

African Development Report, 1998, reported life expectancy to have risen from 40 years to 48 years between 1960 and 1980 while infant mortality rates to have declined by 25% in the same period. Life expectancy had gone up to 52 years in sub-Saharan Africa by 1997 (World Development Report, 2001/2). It is reported that in 1960, Africa had a population of 280 million which was 9 per cent of the world's population. By 1997, the population was 758 million or 13 percent of the world's population and this will be 1.5 billion, 20 percent of the world's population by 2025. The average growth rate is 2.8 percent (African Development Report, 1998). This rapid increase in the population impacts on the resource availability, especially in conditions where output is low and agro based, leading to low incomes. These low incomes and large number of dependants deny people basic necessities of life and thus cause low standards of living. The resultant feature is mass poverty.

The problem has been compounded by a high prevalence of the Human Immunodeficiency Virus (HIV) and Acquired Immune Defficiency Syndrome (AIDS) which have affected many countries' working classes leaving helpless orphans. This has reduced labour productivity while increasing the cost of health care in poverty ridden societies (Collier, 1997; African Development Report, 1998; 2004; 2007; World Development Report, 2000/1).

2.5.6 Unemployment and disguised unemployment

Underdeveloped countries have a small industrial sector which is not expanding adequately. Therefore jobs are not being created in sufficient numbers to address the increasing population. As the population moves from rural to urban areas and with increases in education, unemployment is a common feature among the educated labour force. Disguised unemployment is also common among the rural people. Agricultural farms in the rural areas are small and a large number of people live on them. Due to seasonality of agricultural operations and inefficient use of other resources many rural people appear unemployed as their output is less than what they can produce by working the normal number of hours per day. There is no adequate information on employment in Africa and where the statistics are available, the rate is very high: 20 percent in Botswana and Zimbabwe; 30 percent in South Africa; and 15-20 in North Africa (African Development Report, 1998; 2004; 2007; African Development Indicators, 2007).

2.5.7 Lack of enterprises and initiative

The prevalence of old customs and rigidity of beliefs inhibits creativity and innovation. Food must be prepared using old methods of production. Things must be done in certain ways as was done in the old ways. This prevents adoption of new methods of production. Therefore, even where there are latent entrepreneurs, this attitude limits entrepreneurial activities of experimentation and innovation. There is no incentive or initiative to do new things. The limited size of the market, lack of capital and the poor legal systems also deter entrepreneurial activity. Poor infrastructure, costly power supply, low quality labour, and the undeveloped financial market, also come into play to deter initiative.

2.5.8 Insufficient capital equipment and technological backwardness

Underdeveloped countries are engaged primarily in agricultural production and use low level technological methods to weed. Harvesting is done manually. Even factory methods are labour intensive, thus not using efficient capital equipment. These result in inefficient production, low incomes and an inability to invest in capital equipment. This also leads into an inability to invest into productive areas. Lack of capital equipment thus results in inefficient production, low productivity, high cost of production, low wages, low incomes, in effect creating a vicious cycle. The indicators of underdevelopment discussed above is what has raised concern among leaders of all countries and the multinational organizations. These are the conditions that need to be removed to create a more equitable world. This can only be achieved if economies grow.

2.5.9 Conclusions: Characteristics of developing economies

Economic growth is therefore of great importance in the developing economies. The fact that other economies enjoy a high standard of living and yet others do not, makes the need to stimulate growth in the developing ones more urgent. A lot of effort has gone into the process of causing this but there is still not much success. The question is how this can be done and who does it. Are there explanations outside or beyond normal growth theories. This is the gap the study seeks to explain. An overview of the conventional theories of growth it discussed below and the Austrian School proposals that introduce entrepreneurs as growth instigators are also reviewed.

2.6 Theories of Economic Growth

Many theories and models have been proposed over the years to explain economic growth and/or development. Economic growth theorists include among others, key ones like those of Adam Smith, Ricardo, Multhisius, Mill, Marx, Schumpeter, Keynes and Rostow. They are divided broadly into classical, neo-classical and monetarist schools of thought. Popular growth models include the Harold - Domer, the Kaldor models, Pasinetti model and Freidman among others (Solow, 1956; Lucas, 1985; Jhingan, 2005). The discussion below summarizes major groupings of the theories.

2.6.1 Classical economist theories on growth

Classical economists were concerned with understanding the process of surplus and accumulation which in aggregate terms results in an increase in national wealth (growth). Adam Smith, as far back as 1776, argued that if there was an adequate market, it would provide a basis for capital accumulation and would cause division of labour, resulting in an increase in levels of productivity. Accordingly, growth in an economy was determined by labour and capital. Smith (1776) emphasized the absence of Government in the process. He also emphasized the importance of a stable legal framework, within which the invisible hand of the market could function. He explained how an open trading system would allow poorer countries to catch up with the rich ones. David Ricardo, another classical economist, formalized the notion of diminishing returns which is also another concept crucial for understanding growth. He showed how additional investment in land would yield lower return and thus growth could eventually stop (Ricardo, 1891).

Classical economists argued that growth in an economy is determined by allowing opportunity to free market forces, “laisse faire”, to operate uninterrupted and that this will lead to efficient utilization of resources and the harmonious creation of wealth. The “laisse faire” system condemns government’s role in business as it says it hinders growth.

Monetary economists in the last 20 years have been saying the same thing and it was on this basis that economic reform was started worldwide in the 1980s with Margaret Thatcher of Britain and Ronald Reagan of the USA at the helm. Among the prominent monetarists are Milton Friedman, and Anna Schwartz, David Laidler and Alan Greenspan (Cottrell, 1994). In explaining economic growth, classical economists failed to recognize the role of the entrepreneur in the process. Indeed Adam Smith did not mention him in his treatise.

2.6.2 Neo-classical theories of growth

Neo-classical economists also failed to recognize the role of the entrepreneur. They assumed that everybody had access to information requiring decision making and therefore decision making was a mechanical application of mathematical rules for optimization.

Neo classical economists including Cassel (1925) and Marshall (1959) did not differ from the classical economists. They reinforced the thinking of classical economists and added government, creating the right climate as a factor to reinforce the interplay of free market forces in a bid to cause economic growth.

In the 1950s, Robert Solow, a leading neo-classical economist, proposed a model for economic growth. Solow's model (1956) is a starting point for all studies of growth. Solow's growth model presented a production function

$$Y=F(K,L,t)$$

While Y is aggregate production, K and L are the amounts of capital and labour employed in production. The derivative of Y over time is assumed to be non-negative. This is the growth in an economy. The model describes an economy in perfect competition whose output grows in response to large inputs of capital, physical assets of all kinds, and labour. The economy obeys the law of diminishing returns, each new bit of capital (given fixed labour supply) yields a slightly lower return than the one before. An important implication of this assumption is that as the stock of capital expands, growth slows and eventually halts. For the economy to grow, there should be continual infusion of technical progress. But this is a force which the model does not explain.

Growth in Solow's model is therefore a result of technical development or accumulation of knowledge donated by L. The entrepreneur has no role. Growth is caused by increase in productivity of labour and capital goods caused by technological development. Adding technological progress to the equation, the production function is;

$$Y(t)=F[K(t),A(t),L(t)]$$

Growth in Solow's model is originated from exogenous sources, savings and technological progress. Another implication from the model's assumptions was that the poorer countries would grow faster than the rich ones due to diminishing returns. Since the poor countries start with less capital, they should grow faster from each of their new investments.

The actual results of the performance of many economies based on this model are however not consistent with it. Average growth rate figures since 1870 for 16 rich countries for which good long-term data exist showed to the contrary (Barro and Sala-Imartine, 1995). In their study, Barro and Sala-Imartine (1995) and Barro (1997) show that modern growth rates are well above their earlier long-run averages. These countries exhibited high growth rates even when growth slowed down since 1970. The results thus contradict the implications of Solow's model that growth will slow down over time. Have the poor countries caught up as predicted in Solow's model? Again Barro and Sala-Imartine (1995) reported that they had not. The poorer countries should have had higher growth rates as explained by Solow, but that they were growing more slowly on average.

Paul Romer questioned the law of diminishing returns among other assumptions in the Solow's model. According to Romer (1986), if additional capital does not yield lower return, then growth can actually continue indefinitely, even without technological progress. He showed that if you broadened the idea of capital to include human capital, i.e. knowledge and skills of a workforce, the law of diminishing returns may not apply.

The variables and assumptions in the Romer's model assumes two sectors in the economy, goods producing sector where output is produced and the Research and Development (R&D) sector which produces additions to the stock of knowledge.

$$Y=[(1-ak)^{00}[A1-aL)]1-^{00}0<a<1]$$

aK is the fraction of capital used to R&D

aL is the fraction of labour used to R&D

Both Solow's and Romer's models are silent about the role of government policy. Recent empirical studies on growth are shedding light on this. Robert Barro and Jeffrey Sachs are among economists who have gathered empirical evidence on the role of government policy. Sachs and Warner (1995), Sachs (1997), conclude that countries that have pursued free market policies including trade liberalization and maintenance of secure property rights have grown faster than those that have not. They also found that higher government spending tended to be associated with slower growth. Human capital, education and skills have also been found to matter. Many East Asian countries that had recent upsurges in growth turning into the newly industrialized countries, had relatively well educated work forces.

2.6.3 Baumol's growth model

William J. Baumol is a neo-classical economist whose career and writing spans over six decades (Eliasson and Henrekson, 2003). He is one of the first economists among his group to urge others to start paying attention to the role of entrepreneurship in economic development. In his studies, Baumol concludes that growth cannot be explained by the accumulation of various factors of production *per se*. Human creativity and productive entrepreneurship are needed to combine inputs in profitable ways.

Baumol (2002) argued that while the traditional factors of labour and capital and knowledge as introduced by Romer (1986) were important in determining output, the capacity to harness new ideas by creating new businesses was also important. This is the role of the entrepreneur. He argued that entrepreneurial activity accounted for a significant amount of growth unexplained by the traditional production models. Baumols fits into the Austrian School.

2.6.4 The Austrian School

The Austrian School also emerged to explain growth and its determinants. Among key proponents are Schumpeter (1934) and Kirzner (1973). The

Austrian School breaks away from the traditional thinking of right policy and right environment to introduce the entrepreneur as a key driver of growth. While Schumpeter's work was at the time of neo-classical economists, not much attention was given to his views. Entrepreneurship is captured in recent attempts to find the reasons for sustained growth.

The debate on growth in recent years has moved away from purely economic policy to include among other factors like entrepreneurship, social capital and governance. The World Bank's emphasis on social capital and governance is a point into this direction. (World Bank Report, 1995; Collier, 1997).

a) **The Schumpeterian growth model**

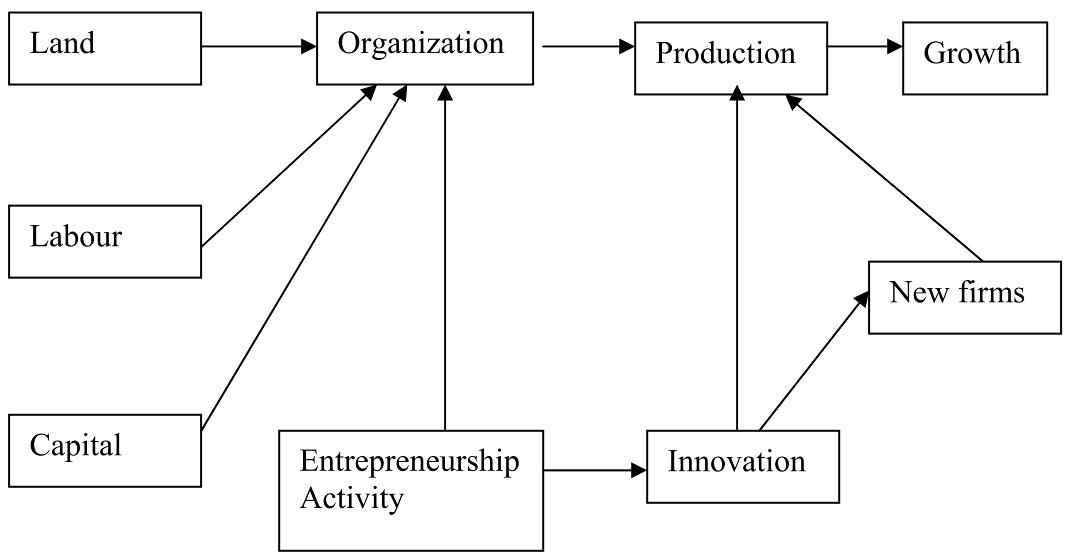
The break from pure economics to other factors was spearheaded by Schumpeter. Schumpeter (1934) moved away from the basic economics when he proposed that growth is attributable to a phenomenon known as entrepreneurship. Schumpeter argued that economic development was not a gradual harmonious process but was characterized by periodic bursts and downturns. These bursts were created by entrepreneurs who seized opportunities and exploited them as new ideas or inventions leading to growth.

Schumpeter, sometimes referred to as the father of modern entrepreneurial thought (Campbell and Wilson, 1976), argued that an entrepreneur was an innovator unlike managers or industrialists who operated business. According to him, an entrepreneur distinguished himself by carrying out new combinations of productive forces. The entrepreneur is the innovator and causes innovations by introducing new goods or services, introduces new raw materials or a new method of production or opens a new market or re-organizes an industry (Schumpeter, 1959).

According to Schumpeter, the existence of innovation possibilities is a necessary but not sufficient condition for development. Entrepreneurship sparks off development by innovating. Therefore, it is the entrepreneur who is responsible for growth/development. Schumpeter assumes that the starting point is a purely competitive economy which is in a stationary state. There is neither net investment nor population growth and full employment prevails. The economy is in equilibrium. Opportunities for new combinations, however exist and entrepreneurs through their activities perceive them and exploit them. This exploitation causes disequilibrium in the economy and leads to increased production and growth.

Schumpeter's theory assumes a perfectly competitive economy which is in stationary equilibrium. In stationary equilibrium, there is no interest, no savings, no investment and no involuntary unemployment. According to Schumpeter, this equilibrium is characterized by a circular flow which continues to repeat itself in the same manner year after year. The same products are produced every year in the same manner. For every supply, there awaits somewhere in the economy, a corresponding demand.

Figure 2.1: **Schumpeter's model of growth**



Development, according to Schumpeter (1959), is the spontaneous and discontinuous change in the channel of this circular flow. Disturbance of the equilibrium alters and displaces the equilibrium state previously existing. This is the role of the entrepreneur through perceptions of innovations and exploiting them through business start-ups.

Changes arise from within the economy. Endogenous development consists of carrying out new combinations for which possibilities exist in a stationary state. These new combinations come from innovation.

Innovation is introducing a new product or a new process, new market, new raw materials, and/or new administrative arrangements.

Schumpeter says development is a result of the introduction of newness and he assigns the role of innovation to the entrepreneur, somebody who introduces something entirely new. The entrepreneur is motivated by a variety of factors including the joy of creating something new, the joy of getting things done, the will to concur and prove superiority besides the desire to form a commercial kingdom. Schumpeter advanced the paradox that economic progress de-establishes the world. As new innovations come up, they bring in their wake new products and/or new services or new firms and processes. New products kill off old ones and as old products die, so do jobs. Economic progress is thus accompanied with job destruction. This is the dynamic process Schumpeter called **creative destruction** or what is today known as the **business churn**. It is new businesses starting, it is business expanding, contracting, relocating and closing. It creates new businesses and new jobs with a multiplier effect, leads to job losses as businesses close.

Criticism of the theory

Schumpeter's theory is based on the innovator whom he regards as an instigator. These were the persons who led the growth in the 18th and 19th centuries through their innovations. Schumpeter (1939) did not consider the possibility of organizations innovating. But now innovations form part of the functions of a corporation, for this reason, the individual who is the entrepreneur is not necessarily the innovator. Innovations are regarded as the routine of industrial concerns and do not require an innovator as such. This view is however challenged by Storey (1994) and Baumol (2002) who argue that important innovations still come from not only small firms but individuals. In their view Schumpeter's view is still valid.

Another criticism leveled against Schumpeter is that economic development is not the result of the cyclical process as he proposed. The downswings and upswings are not essential for economic development. Schumpeter's contention that cyclical changes are due to innovations only is also not entirely correct. As a matter of fact, cyclical fluctuations may be due to psychological, natural and financial causes, thus other factors may influence change.

Again, Schumpeter (1939) regards innovations as the main cause of economic development. But this is far from reality because economic development not only depends on innovations but also on many economic, social and political changes.

Meier and Baldwin (1964) argued that while Schumpeter's broad social economic analysis of capitalist process was generally admired few people accepted its conclusions. They argued that his arguments are stimulating but not completely convincing.

b) **Kirzner's growth model**

Kirzner (1973) is the other economist who departs from classical and neo-classical economists to give an entrepreneur a role in development. Kirzner, like Schumpeter, assumes an equilibrium state in an economy where there is perfect competition and where decision making is not important. The classical economists assume that information for decision making is available to everybody, however, Kirzner shows that there is no perfect knowledge and that in any economy, there are always unexploited gains and these are not recognized by everybody. The ignorance about unexploited gains results in mistakes and missed opportunities leading to failure.

Kirzner (1979) argues that there are some people who see a little more clearly than others. They see these gains, these are the entrepreneurs. Those who notice what has hitherto been overlooked are alert. The entrepreneur is alert to opportunities and thus has superior knowledge and uses that knowledge to profit from the market. However, Kirzner argues that, knowledge does not last. Entrepreneurs who perceive the gains act to exploit it. However, their actions evoke competition, which limits their gains.

In the absence of further disturbance, the process of exploiting the gains will run its course until full knowledge and an equilibrium are simultaneously achieved. Kirzner's arguments are essentially those of arbitrage. Arbitrage in the market may arise where there is a cheaper alternative of producing goods or services or a cheaper raw material that may be used to produce an existing product or where there is a disparity between prices of products and services.

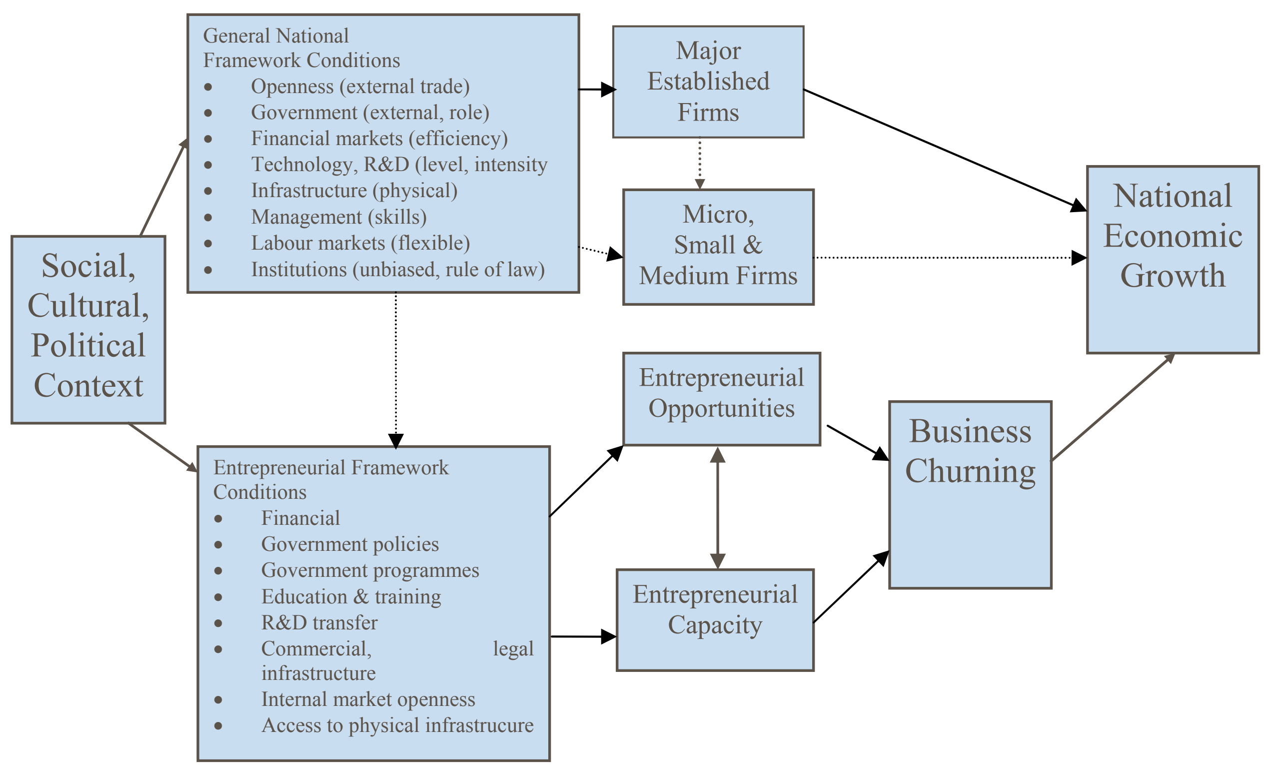
For Kirzner therefore, entrepreneurship is not an introduction of new products or new techniques of production, but is the ability to see that new products have become more valuable to consumers or new methods of production have become feasible, unknown to others.

2.7 Empirical studies

2.7.1 GEM studies

The Global Entrepreneurship Monitor (GEM) is an international consortium of researchers started in 1997 by researchers from the London Business School in the UK and Babson College in the USA (GEM Report 2001). It is the first systematic attempt to test empirically the relationship between entrepreneurship and economic growth. GEM studies are conducted annually and involve specially designed surveys of the adult population and in-depth interviews with the experts on entrepreneurship in a country. The research is both cross sectional and longitudinal and the group designed a conceptual model on how entrepreneurship contributes to economic growth. GEM provides an opportunity to test the theoretical importance of entrepreneurship as provided by the Austrian School of Economics led by Schumpeter. The GEM model operationalized the varaiables provided by the Austrian School. The model, underpinned by these theories, is inspired by earlier studies of firm start-up by Reynolds and Maki (1990) and Saxenian (1994). Reynolds and Maki discovered that economic growth was not only linked to high rates of new firms but also high rate of death, confirming the creative destruction concept proposed by Schumpeter. Reynolds and Maki point out that start up and expansion are not a reflection of growth but actually cause it.

Figure 2.2: **GEM MODEL**



***Source**: GEM UK Report 2001*

The GEM model is heavily weighed towards measurement of start-up activity and it is start-up that reflects the growth in the economy. Start-up activity is measured by the Total Entrepreneurial Activity (TEA) which is the proportion of people of working age who are in the process of starting their own business or self employment or who have established a business less than three and a half years ago (Nascent and most likely Novice entrepreneurs). So far, in the various studies, it has been established that a relationship exists between entrepreneurship and growth (GEM UK Report, 2001).

GEM started with only eight countries and in most of the early years of the study, most countries that participated were developed countries. In the early years, countries with a high TEA index were seen as highly entrepreneurial and had more growth. As developing countries joined the research, they reported higher TEA indexes. In 2001, Mexico was the first country with a TEA of 20. In 2003, Uganda and Venezuela registered TEA score of twice that of the United States! In 2004, Peru registered a score of 41 and Uganda of 31. Thus in 2004, 41 percent of Peruvian and 31 percent of Ugandans were involved in setting up or in actual entrepreneurial activity yet these two are very poor countries (GEM UK Report, 2004). Because of these developments, the TEA was then seen as not a real measure of entrepreneurial performance but a proxy measure of poverty. The poorer the country, the higher the TEA.

Faced with this dilemma, GEM researchers made a distinction between necessity and opportunity entrepreneurship. Necessity is involuntary motivated by an absence of determinants like actual jobs or social benefits.

Opportunity entrepreneurship on the other hand is voluntary and is motivated by pursuit of perceived opportunities (Reynolds, et al, 2001). The argument was that in developing countries, where unemployment was massive and so is poverty, a larger number of people are pushed into necessity entrepreneurship. Further reflection by Acs (2004) has led to a fundamental shift away from GEM's original model that start-up explains growth. A more complex theory is emerging where relationship between GDP per capita and the TEA have been explored and economic development categorized in three stages, low, medium and high. Countries in the lowest stage of development have high TEA. Countries in the medium stage of development like China and Eastern Europe, have low necessity entrepreneurship and high opportunity entrepreneurship. They have relatively high TEAs. Developed countries generally have a low TEA because of the safety net for the unemployed.

Studies that preceeded GEM, led by Reynolds, along with other researchers, had earlier attempted to relate entrepreneurship with growth (Reynolds and Maki, 1981). Reynolds' studies made the firm the unit of analysis and thus have been firm-centred. The role of the entrepreneur is that of starting new firms. It is new firms that cause growth and firm birth and death, the churn optimizes the process. The churn as adopted in the GEM model therefore indicates the role of the entrepreneur in the growth process through business start-up. But entrepreneurship is not only about start-up. It may involve acquisition, inheritance, renewal or expansion of an existing business Westhead and Wright (1998). GEM studies may thus not include the entrepreneurial activity that goes through other methods of start-up like acquisition or expansion.

It has been realized since the early 1990s that many entrepreneurs, start, grow and own a succession of firms and the more experienced the entrepreneur the more firms he starts, grows and the higher the survival rate (Scott and Rosa, 1996 (a)). This complexity is unpacked by an analysis of the different types of entrepreneurs which typifies entrepreneurs as nascent, novice, serial and habitual. Habitual include the serial and portfolio.

Portfolio entrepreneurs start, own and manage a multiplicity of firms and therefore contribute disproportionately to the start-up and growth of firms. Scott and Rosa [1996(b)] argued that they were more neglected in various entrepreneurial studies and yet were a key source of growth in an economy. Portfolio entrepreneurs are a symptom of a much wider influence of entrepreneurship within existing firms, not just in terms of new corporate spin-offs, but also in the identification and pursuit of new opportunities through diversification. It is only logical then that studies take the entrepreneur as the unit of analysis and start-up is widened to include acquisitions and expansions. This study focuses on existing firms and take up the portfolio entrepreneurs as the unit of analysis.

GEM has in its model existing firms but does not survey them. If it was done, it would focus on both the largescale portfolio entrepreneur and corporate entrepreneurship. GEM attributes growth to the firms and the churn it refers to is due to the entrepreneurial framework conditions detailed in the model. This change occurs in what GEM refers to as entrepreneurial framework conditions which are detailed in the model. These conditions are essentially support for entrepreneurial development in a country complemented with general national framework conditions mentioned above.

GEM has been able to link growth to entrepreneurial activity but gaps still exist in areas of existing firms and linkage to the churn. GEM has been able to confirm that less developed countries grow more quickly than developed ones as proposed by Romer (1986).

2.7.2 Audretsch and Keibach's entrepreneurship capital

Audretsch and Keibach (2004) introduce the concept of entrepreneurship capital and adding it to the neo-classical model of the production function proposed by Solow (1956) and later varied by Romer (1986). They study the performance of certain German regions and conclude that entrepreneurship capital was a significant factor in shaping output and productivity. Audretsch and Keibach (2004) define entrepreneurship capital as the capacity of economic agents to generate new firms. They argue that since entrepreneurship is referred to as a process or activity, they proposed that it could be considered to constitute a stock of capital since it was a reflection of factors and forces including legal, institutional and social which created the capacity for that activity.

Acknowledging that business start-up is a definite activity of entrepreneurs, they say that it is influenced by a variety of forces and factors including legal, institutional and social. Citing studies by Thorton and Flynne (2003) and Saxenian (1994) done in the Silicon Valley where business start-ups have been numerous and the economy booming, they say that Silicon Valley is rich in entrepreneurship capital. They attribute this not only to a concentration of skilled labour, suppliers and information that is prevalent in the region, but also to trade associations, a myriad of specialized consulting, market research, public relations and venture capital firms providing technical, financial and networking services which firms cannot afford individually. This is complemented by trade shows, industry conferences, seminars, talks and social activities where relationships are formed and maintained, information is exchanged, contacts established and new enterprises formed. They argued that such contexts generated a high propensity for economic agents to start new firms and could be characterized as being rich in entrepreneurship capital.

They argue further that entrepreneurship capital exerts a positive impact on growth because of the following:

a) It is a mechanism for knowledge spill-overs. It facilitates transmission of knowledge across firms and individuals. Knowledge spill-over allows firms to develop capacity to adapt new technology and ideas from external sources.

b) Entrepreneurship capital extends influence on economic growth through increased competition by the increased number of start-ups. Increased competition provides greater competition for new ideas but also facilitates entry of specialized firms into industries.

c) Entrepreneurship capital also provides diversity among firms thus generating more economic output. Hannan and Freeman (1989) argued that new organizations represent unique approaches.

Audretsch and Keibach (2004) propose a production function while doing a case study for German regions. Using a specification of the Cobb-Douglas type, they obtained:

$$Yi = \alpha K_i^{\beta_1} L_i^{\beta_2} R_i^{\beta 3} E_i^{\beta 4} e^{\varepsilon i}$$

Where:

K represents physical capital

L represents labour

R represents knowledge

E represents entrepreneurship capital

i refers to German regions

Evidence from the study by Audretsch and Keibach (2004), leads to a conclusion that entrepreneurship capital which they measure by firm start-up also plays an important role in the production function model.

2.8 Conclusions

The production function as proposed by the neo-classical economists explained the economic growth, however it is not exhaustive in explaining the determinants of growth (Solow, 1956). Even the subsequent model (Romer, 1986) does not exhaust the determinants of growth. It is the Austrian School led by Schumpeter that introduces the entrepreneur as part of the determinants to growth. The entrepreneur perceive opportunities s and exploits them to create wealth through production of goods and services. He takes the attendant risks associated with exploitation of opportunity. These opportunities take form of innovations in an economy. They are new or different ideas. Without opportunities, the economy gets back to an equilibrium. Additional growth in the economy will emerge from the entrepreneurial activities of perception, innovation and exploitation of an opportunity. Economic activity is organized through a business organization. This is the role of the entrepreneur to start the business, mobilize resources, coordinate resources, build the organization, take risks and create output, along with wealth. The role does not stop only at economic growth, it extends to economic development where it increases per capita output and incomes through jobs and incomes created. It also extends beyond that, causing structural changes in business and society. This study sought to determine whether the entrepreneur is the missing gap in the growth factors in Uganda.

It is this inability of many countries in Africa, Asia and Latin America to emerge out of the poverty conditions despite the technological progress and wealth around the world has been of concern to governments and multilateral institutions worldwide. The different economic growth and development models that have been suggested and implemented appear not to have resulted into the necessary growth required to get these countries out of poverty. On the other hand, there have been some countries including South Korea, Malaysia, Singapore, Taiwan that grew rapidly and have achieved the status of industrialized countries. Can the experiences of these countries be replicated? What caused the growth? (Robinson and Tambunlertchai, 1993; Naya and McCleery, 1994).

With all the growth factors and barriers mentioned in the different models, the role of the entrepreneur has been least explored. This role was not acknowledged in the models of both classical and neo classical economists. It is Schumpeter (1949) who attributed growth to the entrepreneur through the process of creative destruction. A few other economists have subscribed to Schumpeter views. These include Kirzner and Baumol and in recent years Audretsch and Keibah (2004), Wennekers and Thurik (1993) and Plummer and Taylor (2004).

Not many empirical studies about Schumpeter propositions have been conducted. While there is some work that preceeds the GEM studies, GEM was the first systematic effort to study the relationship between entrepreneurship and economic growth. GEM so far has studied nascent and new firms and in their model, large sized existing firms have not been studied.

Entrepreneurs with large scale activities tend to be the portfolio type. This study identified the portfolio entrepreneur as an important player (Ucbasaran et al, 2000) and chose to examine his role to economic growth. The next chapter reviews the literature on the portfolio entrepreneur.

CHAPTER THREE

PORTFOLIO ENTREPRENEURS AND GROWTH

3.1 Introduction, Description and Functions of the Portfolio Entrepreneur

3.1.1. The portfolio entrepreneur

Probably the most dynamic and outstanding entrepreneur among individuals is the portfolio type. Portfolio entrepreneurs are said to be those who start, buy, own and manage a multiplicity of businesses at any one time (Macmillan, 1986; Kolveried and Bullväg, 1992; Kealey, 1995; Parson, 1995). Macmillan argued that focus should be on this type of entrepreneur because he has built an entrepreneurial experience curve. Portfolio entrepreneurs are distinguished from serial, nascent and novice (Donckels *et al*, 1987; Kolveried and Bullväg, 1992; Starr and Bygrave, 1992; Wright *et al*, 1997(a) *(see 3.5.)* They are part of the habitual entrepreneurs but are identified with multiplicity of start-up and/or ownership. This affirms the view by Hall, (1995). Westhead and Wright, (1998(a) who argue that they found, own, and/or manage a multiplicity of businesses. Westhead and Wright (1996) call them parallel founders as they distinguish them from serial founders. They are entrepreneurs who have started at least one previous business and have retained their original businesses. Ronstadt (1988) called them overlapping entrepreneurs. Carter (2001), reports that many farm businesses combine agricultural production with other income generating activities and such farmers are called pluriactive farmers.

In this chapter, we discuss who an entrepreneur is, the entrepreneurial process and the different types of entrepreneurs focusing on the portfolio entrepreneurs. We also discuss the role and importance of the portfolio entrepreneur in the economic growth process.

3.1.2 Who is an entrepreneur

There is no agreement on what an entrepreneur is or what he does. An entrepreneur looks for new ideas and innovative technologies (Baumol, 1968). Schumpeter (1934) says entrepreneurs carry out new combinations. Kirzner (1979) sees an entrepreneur as one who perceives and seizes an opportunity that others have not seen. Drucker (1985) calls him a person who seizes an opportunity and exploits it.

Weber (1977) contributes to the literature using the traits approach to describe entrepreneurs. He attributes entrepreneurship to the protestant work ethic. However, work by Gartner (1985) and Aldrich and Zimmer (1986) argue that the traits approach cannot distinguish between entrepreneurs and non-entrepreneurs. In their view, traits change with time.

The behavioural attributes approach emerges to provide an alternative to describing entrepreneurship. McClelland, (1961); Chell, (1985); Bygrave,

(1994) argue that entrepreneurs are characterized by unusual creativeness, propensity to risk taking and a strong need for achievement. This approach describes entrepreneurship from a behavioural perspective.

From these definitions, an entrepreneur can be described as a resource creator, a change agent, an innovator, or a risk taker. But most important an entrepreneur triggers production, creates jobs and wealth and hence economic growth. It is this aspect that this study focuses on (Davidson, 1988; Gartner, 1989b; Cunningham and Lischeron, 1991; Gartner *et al*, 1994).

3.1.3 Functions or roles of an entrepreneur

Considerable effort has gone into research to understand, define and describe what the entrepreneur does. However, the research has not focused on how that role relates to economic growth. This was not until the GEM studies. However, the different findings and several papers by different researchers have discerned the role of an entrepreneur (Cantillon, 1925; Walker, 1970; Say, 1924; Evans, 1949;, 1959; Gupta and Srinivasan, 1995; Walras, 1954; McClelland, 1964; Casson, 1982; Storey, 1994.

Early economist including Adam Smith, David Ricardo, J. S. Mill and Walker (Gupta and Srinivasan 1995) made contributions to an understanding of the functions of entrepreneurs. While most of these philosophers did not make use of the word directly, they alluded to it. Adam Smith considered the entrepreneur as a supplier of capital and a person who intervened between labour and the consumer. Ricardo said that the role of the entrepreneur was to accumulate capital and without it there would be no economic development. Mill called an entrepreneur an organizer, while Walras (1954) considered an entrepreneur as a coordinator of factors of production.

Cantillon who is reported to have introduced the word entrepreneur calls him the agent who buys means of production at certain prices in order to combine them into a product that he is going to sell at prices that are uncertain at the moment (Gupta and Srinivasan 1995). Walker (1970) referred to the entrepreneur as the chief agent of production. Without referring to the organization itself, it is assumed that production takes place in an organizational environment. He thus referred to the entrepreneur as a manager and organization builder. Knight (1921) said that entrepreneurs are a specialized group of people who bear risk and deal with uncertainty. An entrepreneur, he argued, is an economic functionary who undertook a responsibility which could not be insured or salaried.

Say (1924) calls an entrepreneur a person who shifts economic resources from an area of low productivity to an area of higher productivity and greater yield. The entrepreneur is thus an economic agent who unites all means of production. This process of bringing together factors of production results in the creation of an enterprise, this is organization start up. Thus Say's description of the function of an entrepreneur is in the economic domain.

Schumpeter (1934) calls the entrepreneur a person who combines factors to accelerate economic development. Evans (1949) says an entrepreneur initiates, organizes, manages and controls the affairs of a business unit that combines the factors of production to supply goods and services.

Kilby (1971) identifies thirteen functions which included the following among others; perception of opportunities, gaining command over resources, purchasing inputs, marketing products, managing finances, production, human relations within the firm and introducing new production techniques and production. Kilby suggested that only perceiving market opportunities and gaining command over scarce resources are the entrepreneurial functions. The entrepreneur delegates the rest. Kilby's work thus takes the entrepreneurial function in the economic realm as an exchange relationship. Kilby argues that entrepreneurship activity results in change from low value to high value in an economic system. Kilby is supported by Shapero (1984), Chell (1990) and Morris *et al,* (1994).

The entrepreneur is thus credited with and responsible for start-up, acquisition, the expansion or contraction of the business (Schendel and Hofer, 1979; Casson, 1982; Cooper and Dunkelberg, 1986; Storey, 1994; Block and

MacMillan, 1993; Robbie and Wright, 1996;). From the above, it is clear that the decision to start-up, expand, enter into markets, exit and others that have risk bearing are those of the entrepreneur.

The above description of the functions of the entrepreneur forms a basis for a more generalized description of what an entrepreneur does, his role or function. The role or function of the entrepreneur is, in overall terms, to create value through seeking and combining resources. This he does through innovation, business start-ups, mobilization of resources and getting the resources to work irrespective of results. The actions of the entrepreneur results into economic activities of production, job creation and exchange and when successful they create wealth and result in economic growth. An entrepreneur is thus a growth instigator. This confirms Schumpeters assertions.

3.1.4 The entrepreneurship process

Subsequent contributors to the literature examine the process of entrepreneurship and entrepreneurship activities to describe the entrepreneur and his roles (Bink and Vale, 1990; Morris *et al*, 1994). Entrepreneurship is distinguished by what the entrepreneur does or how he acts and the outcomes of his actions. This view looks at entrepreneurship as a process of creating and accumulating wealth. This is the starting point for recognition of the role of an entrepreneur in not only business growth but economic growth. The process of creation and accumulation of wealth is a process of entrepreneurship.

3.2 Different types of entrepreneurs

Entrepreneurs have been classified in different ways. One is by function, as industry maker, cantillon, administrator or intrapreneur (Carland *et al*, 1984; Begley, 1995). Another is an individual, group or corporate (Wright *et al,* 1997 (a) and (b)). A third is nascent, novice and habitual (Webster, 1977; Birley and Westhead, 1993). The classification of entrepreneurs is important because different entrepreneurs play different roles and behave differently. This study focuses on large portfolio entrepreneurs, who therefore must be identified and distinguished to justify why they were selected. The sections below describe the different types of entrepreneurs.

3.3 Cantillon, Industry Maker, Administrative entrepreneurs and Small Business Owners

Webster (1977) in his attempt to classify and clarify deferent types of entrepreneurs describes four types. These include, the Cantillon entrepreneur, the Industry Maker, the Administrative entrepreneur or Intrapreneur and the Small Business Owner. The Cantillon entrepreneur is named after the French Economist Richard Cantillon. This according to Webster, is the classic type of entrepreneur who brings together people, money and materials to create a new organization. The Cantillon entrepreneur identifies an opportunity and exploits it. The Industry Maker is one who goes beyond a firm. He invents or creates a whole industry. Such an entrepreneur develops a product, a technology or a new process on which a whole industry will evolve; Henry Ford with the motor vehicle industry and Bill Gates with the computer operating software, are such type. The Administrative entrepreneurs or those Webster calls Intrapreneurs are the type who thrive from within an organization. They innovate and provide leadership and dynamism from within. The Small Business Owners own and run small businesses. The discussion below sheds more light on the entrepreneur and intrapreneurs.

3.4 Entrepreneurs, Intrapreneurs and Corporate Entrepreneurs

3.4.1 The entrepreneurs

Early research and contributions to the entrepreneurship literature tended to restrict the meaning of entrepreneurs to individuals. Indeed, leading contributors to the literature like Schumpeter, restrict their interpretation to an individual. Cantillon (1921), Say (1924), (cited in Gupta and Srinivasan; 1995), McClelland (1961), Glade (1967) Vaspere (1981), Shapero (1975), Chell (1991) invariably describe an entrepreneur. This refers to him as an agent, a risk taker, an organizer, a manager. These descriptions tend to fit the description of the enterprise in an individual. The concept was thus difficult to imagine as anything but an individual.

3.4.2 The intrapreneurs

Some contributors to the entrepreneurship literature have however departed from this thinking and suggest that entrepreneurship can exist in organizations, (Kanter, 1983; Pinchot, 1985; Aldrich and Zimmer, 1986). They introduced the concept of intrapreneurs to refer to intra-corporate entrepreneurs. The development and popularization of the concept of intrapreneurs is a recent occurrence. It is reported to be a concept of the 1970s. Gupta and Srinivasan (1995) report that the concept emerged as a result of corporations wanting to retain enterprising people in their organizations. They report that many senior executives who were entrepreneurial were leaving organizations to escape bureaucracy and inertia in the huge organizations they served. They left because there was no opportunity to innovate or bear risk and possibly reward. This corporate brain drain was realized initially in the United States but was subsequently seen globally in large corporations.

It was Pinchot (1985) who described persons who resigned their corporate positions to launch their own businesses as intrapreneurs. Pinchot suggested that large corporations should learn to utilize entrepreneurial talent within their organizations to avoid stagnation and decline. This would be through building structures and a culture within the organization that would support entrepreneurial activity to thrive.

The early proponents to the concept of intrapreneurship also see an individual, not necessarily the owner, acting in an entrepreneurial manner in a large organization. The concept thus puts emphasis and indeed focuses on the individual. A person with entrepreneurial personality exists in an organization and is supported by management in a bureaucracy to conduct entrepreneurial activity. Such people are usually founders of the business and those who have influence in the organization and their ideas are supported by top management. This concept is important when discussing entrepreneurial activity in existing firms. Start-ups or diversifications can be effected in such organizations through such persons.

3.4.3 **Corporate entrepreneurs**

Corporate entrepreneurship involves managers creating new combinations of resources in existing firms (Wright *et al*, 1997a). It is thus possible to have an organization to be entrepreneurial without having entrepreneurs as individuals. This is however, possible, if inside the organization, conditions are created that make it possible for individuals to get power to experiment, create, develop or test ideas or products. This is letting an individual innovate in an organization but without clearly identifying the individual. This is possible in all sections and departments of the organization (Kanter, 1983).

An organization can thus be entrepreneurial. It can exhibit entrepreneurial characteristics. (Kanter, 1983, 1992; Aldrich and Zimmer, 1986; Covin and

Slevin, 1991; Zahra, 1993; Batten, 2002). Organizations are entrepreneurial when they exhibit entrepreneurial behaviour. The set of values in an evolving organization are identifiable with the personal values of the founder or founding team on which an organizational culture is emerging. For the established organization, the organizational culture is in place, it is organized, institutionalized and impersonal (Kao, 1989).

The organization is entrepreneurial if it is able to innovate, initiate change and rapidly react to environmental changes. It is flexible. Corporate entrepreneurship is then reflected in the culture of the organization. This is also important when looking at entrepreneurship activity in existing firms.

3.5 Nascent, novice and habitual entrepreneur

Webster (1977) provides further insight into types of entrepreneurs when he makes a further classification by venture success. In this grouping he identifies three types whom he describes as Nascent, Novice and Habitual. This classification is based on perceived pay offs from a venture.

3.5.1 Nascent and novice entrepreneurs

Nascent entrepreneurs are those individuals who are considering to start or establish new businesses. They are in a sense, potential entrepreneurs. They may have perceived the opportunity, may have even taken the steps of start-up but have not produced anything. Webster calls novice entrepreneurs those individuals who start, inherit or purchase ventures but have no previous experience as business founders, inheritors or purchasers. In a study by Birley and Westhead (1993) they define novice entrepreneurs as persons in a business but with no prior experience of founding one. Similarly in their study Kolvereid and Bullväg, (1992; 1993) found them to be persons running a business and with features of an entrepreneur but had no previous start-up experience.

Novice entrepreneurs are thus entrepreneurs who are involved in only one business and have not previously founded or been involved in any other. Kealey (1995) equates those to one-shot entrepreneurs. The novice entrepreneur turns into a mature entrepreneur if their business succeeds and serves over a long period. Should they in future start another business they then change from this categorization to another. They become habitual entrepreneurs. The classification however suffers a time limitation. For how long does a novice remain a novice?

3.5.2 Habitual entrepreneurs

There are numerous contributions on what and who habitual entrepreneurs are. While some controversies emerge, there tends to be a general agreement as discussed below. Habitual entrepreneurs are those with prior business experience. They currently own a business and have started up one before which may or may not still be in existence. Donckel *et al*, (1987) call habitual entrepreneurs those who own multiple businesses who after having started a first company, set up or participate in the start up of other(s) companies. Kolveried and Bullväg (1993) call them founders who have established more than one business and they still own the most recent business prior to the start up of the current new independent business.

Macmillan (1986) defined a habitual entrepreneur as an individual who starts a new business and enjoys the excitement and challenge of set up. He further says that if the business is running smoothly and successfully, entrepreneurs will get bored with it and hand it over to professional managers. Thereafter the entrepreneurs will start another business.

Macmillan's definition is subject to contentious. While it is true that as business grows, there is need for professional management, it is not common that a person who fits the description of an entrepreneur gets bored with a business. Since the person is an entrepreneur, he is an innovator and would like to see the business develop rather than get bored. He may want to change something in the business. Steve Jobs, the founder of Apple Computers, fits in this description. He founded Apple Computer. After years, he invited John Scully, a professional manager from Pepsi, to manage the company (Scully and Bryme, 1993). Jobs went ahead to found Next. When Next failed and even management at Apple failed, Steve Jobs returned to Apple.

Macmillan's (1986) definition of a habitual entrepreneur tends to restrict the meaning attached to the concept. Macmillan argues that a habitual entrepreneur is involved in only one business at a time. Starr *et al*, (1992) and Starr and Bygrave (1992) call habitual entrepreneurs persons who are involved in multiple start-ups. They do not however explain whether they are involved in the different businesses concurrently. Birley and Westhead (1993) supported by Kealey (1995) refer to habitual entrepreneurs as those who have founded at least one other business before the current independent one they are involved in. Habitual entrepreneurs are those with prior business experience. They have started, owned or managed a business before. In distinguishing habitual entrepreneurs a further classification is made.

Westhead and Wright (1998a and 1998b) distinguish between novice, portfolio and serial entrepreneurs. Serial entrepreneurs are those who own one business after another but effectively own or manage one business at a time. Portfolio entrepreneurs found and own or inherit or purchase and manage more than one business at a time.

Birley and Westhead (1994) give the distinction which used in this study. They divided habitual entrepreneurs into serial and portfolio. Serial entrepreneurs according to them are those who own one business after another but effectively own only one business at a time, the previous business may have been sold, closed or otherwise. Portfolios are habitual entrepreneurs who own or manage more than one business at a time. Parsons (1995) agrees with the position and calls them men or women who have built up a portfolio of businesses, those who remain economically active by opening multiple businesses. Boyd (1993) equates them to multiple business owners and says they remain economically active by opening multiple businesses. These two contributors tend to put a firm meaning to the concept of portfolio entrepreneurs. It is clear that they were involved in more than one business at a time. Wright *et al,* (1997) define serial entrepreneurs as those who exist in one venture before entering a subsequent one.

Multiplicity defines portfolio. Kolveried and Bullväg (1992) give a meaning which is more or less similar to that assigned by Parsons (1995), Boyd (1993) and Kealey (1995) to portfolio entrepreneurs. The meaning assigned by Birley and Westhead (1995) calls serial entrepreneurs founders who have established at least one other business prior to start up for the current new independent venture. They restrict the definition of a serial entrepreneur to an entrepreneur involved in only one business at a time but who previously had founded other businesses.

Because of the nature of the serial entrepreneur, their businesses tend to be smaller than that of portfolio entrepreneurs. The reason being that a serial entrepreneur places emphasis on achieving a particular goal and receiving recognition for it which is actually crystallized through the act of disposal (Westhead and Wright, 1998). Serial entrepreneurs may be either craftsmen or of an opportunist type. The craftsman is motivated by the desire for autonomy while the latter is motivated by the desire for financial gain and the opportunity to build a successful organization.

These definitions suffer from a major limitation which tends to conclude that all business started is entrepreneurial. This is not necessarily true. The test for entrepreneurship is something being new or different and resulting in adding value and creating wealth.

3.6 Importance of portfolio entrepreneurs

The importance of portfolio owners was explained by Storey (1994). He noted that many small business owners may be owners of more than a single business. Their contribution to the economy is therefore greater than those who own and manage a single business. He found that 80 percent of the directors of fast growth firms own other businesses, compared with a figure of only 30 percent in the case of directors of other firms (Storey, 1994). Portfolio owners are therefore of key importance in terms of their contribution to creating value.

Storey (1982) had also quoted research by Oakey (1979) who had found that in a sample of 323 firms examined, firms which had more than 1000 employees were more likely to have developed and implemented a significant innovation than a firm with fewer employees. This means large firms which are likely to be owned by portfolios are likely to have more innovations. They are thus more important in the economic context.

Birley and Westhead (1994) reported that up to 36 percent of business founders had prior founding experience thus the importance of the habitual entrepreneur. Scott and Rosa (1996) argue that the importance of portfolio entrepreneurs need not be re-emphasized. The fact that a person owns and manages more than one business, and for that matter successfully, makes him have a larger contribution to growth than those with single businesses. It puts him at the extreme end of the entrepreneurship continuum scale. Kolveried and Bullväg (1993) argue that a person cannot start or manage a multiplicity of business if he is not succeeding. This means that the portfolio entrepreneurs have the intensity of traits, behaviours and perform more intensely the functions of an entrepreneur.

Because of the multiplicity of businesses owned, the portfolio entrepreneur amasses a wealth of skills, assets and builds a network that makes him a key player in an economic system. (Scott and Rosa, 1997; Wright *et al*, 1999) They are better at making judgments, are economically active and very skilled. They are a significant source of new firms (start-ups). (Scott and Rosa, 1997)

The multiplicity of organizations enables portfolios to build assets that are used to create more businesses, more jobs and more growth in an economy. The assets reduce his need for debt financing and this makes his pursuit of an exploitation of opportunity easier since he does not always have to seek external funding. The experience enables him spot and seize opportunities much more quickly than other business owners. The experience he has enables him create and try out more new combinations than other entrepreneurs. He is thus more innovative. He is also able to take more calculated risks when he perceives and he seizes opportunity.

Starting and managing multiple ventures is an indication of entrepreneurial skills and performance, not necessarily of firm performance (Delmar, 1996; Rosa *et al,* 1996), Entrepreneurial performance is not concerned with competitive management practices related to profitability. Rather it is how many innovations, how many start-ups, how much risk, does an entrepreneur undertake measured by the process of extracting value from the diversity of opportunities. Rosa and Scott (1999a) argue that entrepreneurial performance is therefore measured by the growth of a cluster or groups of firms all centered around the entrepreneurial initiative of a single entrepreneur or entrepreneur team.

Studies in the different types of entrepreneur (Westhead and Wright, 1998) posit that entrepreneurship is not only about start up but can involve acquisition, inheritance or organizational renewal. What is key here is that the entrepreneur owns the business. Of course purchase may have similarities with start up because there is a conscious decision to acquire. However, in the case of inheritance the decision to acquire or own is not conscious, therefore ownership becomes the key. Many successful portfolios not only start but acquire other businesses.

The portfolio entrepreneur therefore emerged as of great importance in this study because of the reasons raised above. However, the following were reasons why this study focused on the portfolio entrepreneur.

a) Multiple owners of businesses are common. Westhead and Birley (1994) conclude that there is a high prevalence of multiple owners in an economy. Rosa and Scott (1999a) report that the number of businesses owned by portfolios increase with time.

b) The multiplicity of businesses makes them have a higher contribution than the average single business. They therefore produce more goods and services and create more wealth. Kolveried and Bulvag (1992, 1993) and Westhead and Birley (1994) concluded in their studies that habitual entrepreneurs versus the novice entrepreneurs did not have contributions that were much different. However, in their study, they compare the most recent and newest businesses with those of novices not the best businesses. Besides, there has been no systematic comparison with owners of single mature businesses. Their studies also look at the smaller habitual entrepreneurs and do not consider some of the successful large business groups like those owned by the likes of Richard Branson. It is also reported by Rosa and Scott (1999a) that most of the high growth businesses are associated with habitual entrepreneurs, either founded directly by them or in partnership with novice entrepreneurs. They also found that high growth companies had a habitual entrepreneur on its board.

c) Most large businesses are controlled either by an entrepreneur or a family and these businesses are not single firms but groups of businesses. Scott and Rosa (1999b) and Rosa (1998) show that habitual entrepreneurs start groups of companies as a means of diversification.

d) By their nature, portfolio entrepreneurs are likely to own large firms and their businesses survive longer. GEM studies and indeed other studies have tended to focus on start-up as a measure and an indicator of entrepreneurship. GEM has not examined existing companies where growth is through innovation or expansion and usage of new materials or new products or processes. There is an overlap between corporate entrepreneurship and portfolio entrepreneurship. The head of a corporation is commonly a portfolio entrepreneur who also owns or controls shares in the company (Brayon, 1996). The contribution of these leading portfolio entrepreneurs when they operate both as portfolio and corporate entrepreneurs has not been researched.

3.7 Characteristics of portfolio entrepreneurs

Entrepreneurs, generally are characterized by certain typical behaviours. They have initiative, take risks, innovate and have a high need to achieve. What makes the portfolio entrepreneurs different from other entrepreneurs other than multiple start-ups and/or ownership are these other distinguishing features or behaviours. As earlier discussed, the literature is scanty however, the following have been distinguished.

In a study done by Lamont (1972) who examined the influence of entrepreneurial experience on selected strategic founding experience, he found that experienced (habitual) entrepreneurs compared to novices had easier access to external finance. He also found that unlike novices, they were able and found it easier to put together a team of people to start a new venture. They are thus able to mobilize resources as both financial and human capital.

Research to distinguish the different entrepreneurs suggested differences in the different types. Kolvereid and Bullväg (1993), and Westhead and Wright (1998) found that there were fewer women portfolio entrepreneurs than men. This confirmed earlier findings by Donckels *et al,* (1987). Carter (2001) found that mono-active farmers tended to be older 50-55 while portfolio owners tended to be younger 36 – 45.

Kolvereid and Bullväg (1993), and Donckels *et al,* (1987) also found that habitual entrepreneurs were more likely to have obtained higher education qualifications. Habitual entrepreneurs tend to start their businesses at a much younger age than novice entrepreneurs (Birley and Westhead, 1994; Kolvereid and Bullväg, 1993. Portfolio entrepreneurs were found to have had greater exposure to managerial issues than serial entrepreneurs. Serial entrepreneurs were on the other hand found to be more cautious than portfolio entrepreneurs.

They also have a network of contacts they use for their businesses. This is besides the internal network of managers and specialists in the different businesses. Because of the number and size of businesses, the portfolio entrepreneurs network is large. It consists of financiers, suppliers, customers and internal managers, with who they work. The network contributes social capital that supports the success of the portfolio businesses.

Portfolio entrepreneurs have greater ability to access physical, human and social capital sources required for start-up than other types of entrepreneurs (Carter, 2001; Ucbasaran *et al*, 2008)

Habitual entrepreneurs have more exposure to the business environment and as a result have better understanding of costs of business, have more skills of perception and coordination. This exposure enables portfolios to accumulate human capital. Human capital are the skills and competences a person acquires over time as a result of exposure and experience to doing things. This includes the ability to perceive opportunities, take decisions, acquire capital, plan for the business, evolve and execute strategy, monitor and control activities of the business. The human capital enables them pursue opportunities (Bates, 1990; Westhead, 1997; Dahquist *et al*, 2000; Ucbasaran *et al*, 2008). Human capital may thus influence portfolios in pursuing subsequent businesses.

3.8 Motivation of Portfolio for start-up

Business start-up is a typical action of an entrepreneur. It is either to exploit an opportunity that has been perceived or in search of an alternative to being employed. For the portfolio entrepreneur, the motivation for start-up tends to go beyond these typical reasons. Starting the first or second business may fit into those usual reasons, but there may be other reasons which may be unique to a particular person especially in starting up subsequent businessess. Satisfying a need, making profit,, need for independence, need for personal development and wealth are some of the reasons (Scheinberg and MacMillan, 1988; Birley and Westhead, 1994). The other reasons advanced include taking advantage of existing legislation, a means of diversification or growth of business, market possibilities, and taking advantage of tax advantages (Donckels *et al,* 1987; Gray 1993).

Wealth maximization rather than just profit may be one of the objectives of habitual entrepreneurs in start-up (Wright *et al*, 1999). Another motivation for growth or start-up of other business is improved private finances (Davidson, 1989; Ward, 1993). This may enable them to have funds for use in different transactions that may not be related directly to the business at hand. This could be to acquire property, spend on family, like education of family members, social occasions and even donations to the society. Other triggers may include the desire for a sense of duty, desire for wealth creation/financial gain (Wright *et al*, 1997b). These motivations change over time. Monetary gain appears to be less important as they start subsequent ventures. Rosa (1999) finds that motives of habitual entrepreneurs may not only vary from entrepreneur to entrepreneur but also by individual entrepreneur over time. Each business started can have a quite different motivation.

Kolvereid and Bullväg (1992) suggest that portfolio entrepreneurs start other businesses because opportunities for growth in a current business are limited and may lead it to operate below optimum level. An entrepreneur may be limited by market size in a specific product and yet has money or other resources to undertake additional business. This may lead him to venture in other start-ups in areas where he sees opportunity.

Donckels *et al* (1987), Kolvereid and Bullväg, (1992), and Rosa (1998) argue that diversification is a likely objective of starting a subsequent business. Diversification serves numerous purposes. As a strategy, it is intended to achieve the objective of growth. It may also be part of consolidation, forward or backward integration. Diversification also serves the purposes of using existing experience to lower costs of production. All these are intended to benefit the entrepreneur. In a study done within 91 small businesses, Lynn and Reinsch (1990) identify diversification patterns among owner managed businesses. Results indicate that small firms identify four reasons of financial growth and to benefit spouse or other family members. These reasons are parallel to those of large business (Lynn and Reinsch, 1990). Portfolios may therefore start other businesses through diversification for these reasons.

Novice entrepreneurs are likely to start businesses in the same sector as their last employer (Cooper, 1985). Habitual entrepreneurs on the other hand because of confidence, are likely to start business in sectors not necessarily related to activities of their last employer. They see opportunity and pursue it. Portfolios are thus more likely to start or acquire other businesses than novice. Iacobucci and Rosa (2004) argue that business group formation is associated with successful entrepreneurs. This is because only a small percentage of new firms survive after a few years of start up and for that matter, even a small percentage grow (Dunne and Samuelson, 1988; Storey, 1994). A person who has an existing business thus is more likely to start another which will stay longer in the market. It is these successful ones, they argue that are responsible for innovations and new jobs in an economy. This highlights the importance of portfolio entrepreneurs and the potential role of their contribution to economic growth.

3.9 Roles of portfolio entrepreneurs in growth

Entrepreneurs are instigators of change (Schumpeter, 1934). They perceive opportunities and exploit them (Kirzner, 1974; Drucker, 1985). By perceiving opportunities and exploiting them, by starting of new business, they instigate change in the economic environment through production of goods and services and the provision of employment. They shift resources from areas of low productivity to areas of high productivity. They bear risk and deal with uncertainty. They supply capital and coordinate factors of production and control the affairs of an organization. They thus create value through combining resources and bring to the market products required by its consuming public. They thus cause production. Every new start-up leads to an increase in existing levels of production and creates jobs. This leads to contribution to growth. The net result of their activities is profit which leads to wealth creation.

By starting and owning and managing a multiplicity of business, portfolio entrepreneurs stand out as making a higher contribution to growth compared to those with one business at a time. This confirms assertions by Scott and Rosa (1996), Westhead *et al,* (1998) and Ucbasaran *et al* (2008).

Portfolio entrepreneurs exhibit more entrepreneurial behaviours. They take more initiative, they innovate more, take more risks and have a higher need for achievement than other entrepreneurs. They have a higher propensity to perform the entrepreneurial functions. Portfolio entrepreneurs are thus a more important group in determining growth in an economy. They are more skilled, have more knowledge, more resources, networks and make more start-ups or acquisitions than other types of entrepreneurs. They are thus an important group in understanding the process of wealth creation (Wright *et al*, 1998).

While serial entrepreneurs may grow big in a single business, their impact will not be as great as that of portfolio entrepreneurs whose multiple start-ups are a reflection of better spotting and perception of opportunities. Portfolio entrepreneurs have a bigger impact on job creation and may have a large multiplier effect due to the larger number of businesses they deal with.

3.10 Large scale portfolio entrepreneurs and economic growth

Most studies in entrepreneurship focus on small firms. Studies on portfolio entrepreneurship so far focus on small size portfolio enterpreneurs (Ucbasaran et al, 2003). Yet evidence suggests that it is the large portfolio entrepreneurs who have the greatest impact on growth. The tendency to focus on simply new jobs created by small firms had created the impression that small firms were more important than large firms (Storey, 1999). Schumpeter (1942) was convinced that large corporations were the future of business. Studies by Blau (1987), and Acs and Audretsch (1993) showed a re-emergence of small businesses. Small businesses have thus been seen as the key to growth. However, there is evidence that large firms have a greater impact. The evidence emerges from an examination of various publications.

a) **The Forbes list of the world's richest people**

Forbes magazine surveys and publishes a list of the world's richest persons. The list shows that the richest are businessmen and women who have either created the wealth themselves or inherited it from entrepreneurial ancestors. Most of these business men or women own groups of companies and can thus be considered as portfolio entrepreneurs. These include people like Warren Buffet, Bill Gates and Carlos Helen. These three are listed with combined assets totaling to US$172 billion more than the GDP of all African countries put together. Infact, there were 1,125 dollar billionaires listed in 2008, with a total worth of US$4.4 trillion.

These billionaires dominate many economies through their different companies and range of products they offer. Their businesses may either be growing as a result of the strong economic growth trends or the economies are growing because of their activities. While Uganda has no billionaire entrepreneurs listed, a handful of portfolio entrepreneurs dominate the economy as will be shown later.

b) **Interlocking directorship**

Studies of interlocking directorship in Scotland in the 1970s and 1980s also reveal evidence of impact of large scale portfolio entrepreneurs on the economy. A study by Scott and Hughes (1979) demonstrated how capital in Scotland was dominated by a handful of entrepreneurial families. As their assets grew and the firms grew, they converted their companies into public companies. However despite minority shareholding in most of these companies, the families still managed to control the corporate companies through a system of interlocking directorships reinforced by intermarriage between the families. Through these relationships, a small group of families controlled the economy of Scotland. For Uganda, several families have controlled a wide range of companies giving them a big role in the economy as will be shown.

3.11 Conclusions

In the search for those factors that may explain growth, entrepreneurship has been one of the major factors besides those in the earlier growth model. GEM studies, Wennekers and Thurik (1993), Audrestch and Keibach (2004) have considered the entrepreneur as a major factor.

The entrepreneur is not considered in the mainstream economic theory as a factor in the growth process. Schumpeter had mentioned him as an innovator and instigator of growth. Governments around the world and multilateral institutions like the World Bank have started pursuing entrepreneurship in a bid to explain the factors that will cause the necessary growth among others, especially in the developing countries. Entrepreneurs are known for their usually creativeness, perceiving opportunity, taking risks and the desire to achieve. The entrepreneur is acknowledged as a person who starts up businesses, innovates and manages businesses, among other functions. But entrepreneurs are of different types. The literature discerns different entrepreneurs including novice, serial and portfolio. While attention has been largely on the small entrepreneur, the large scale, multiple owning entrepreneur tends to be more important in the economy. This is the portfolio entrepreneur.

Portfolio entrepreneurs are those who start, own, manage or control a multiplicity of business at any one time. Because they own more than one business, they tend to contribute more than those with single businesses and thus tend to be more important than others in the economy. The large scale operation portfolio entrepreneurs are naturally more important. Since they have multiple start-ups, they have more experience and have better access to resources. This enables them accumulate more knowledge and resources. The multiplicity of business gives them more and varied human resources and improves their network. They usually have the financial resources required to start and run business. Examining the activities of entrepreneurs and relating them to economic growth and development, it is clear that the activities of these large scale portfolio entrepreneurs have a bearing on economic growth.

Entrepreneurs combine resources to produce goods and services and create value. They employ themselves and also employ others. They thus create jobs, may make profit and create wealth. These productive activities of the entrepreneur result into other attendant outcomes, they build infrastructure, pay taxes and those who are large scale operators have a multiplier effect. They contribute to both economic growth and development. The extent to which entrepreneurs make contributions to an economy has never been tested empirically. This is what this study is attempting to do.

The competitive nature of entrepreneurs coupled with their extra knowledge makes them start new business, buy existing ones, merge with others and now and again close, sale a business or even leave an industry. This collective activity of entrepreneurs of start-up and closure of business may result into formation of an industry or even its collapse. This is what Schumpeter called the process of creative destruction or churn in the GEM model underlying which was growth. The next chapter deals with this process.

CHAPTER FOUR

BUSINESS CHURN AND ECONOMIC GROWTH

4.1 Introduction

Schumpeter was the first economist to depart from mainstream economic thought to attribute economic growth to the entrepreneur. He attributed growth to the process of creative destruction which is a result of entrepreneurial activity. An entrepreneur destroys the existing economic order by introducing new products, new services, new processes and /or new raw materials or even creating new forms of organization. This process of introducing new things is innovation. As innovations are introduced to the market, the old products, services, raw materials, processes and even organizations are displaced. The entrepreneur therefore destroys the existing order by carrying out new combinations. These new combinations cause disequilibrium in the economy and leads to increased production and growth. Growth therefore comes from creative destruction.

This study sought to establish whether a relationship exists between entrepreneurship and growth. Schumpeter had said that growth emerged from a creative destruction process where the entrepreneur was the instigator. Creative destruction is what the GEM studies call the business churn and forms an important part of the GEM model. The business churn is therefore important for understanding growth. This chapter reviews the literature on the churn.

Writing in the Federal Reserve Bank of Dallas 1992 Annual Report, Robert D. McTeer, Jr., President and Chief Executive Officer, remarked:

> "*The credit crunch continues to impede job growth in small and medium size businesses that rely on banks for credit. Despite these tight credit conditions, small to medium sized businesses have continued to lead the economy to the creation of jobs in the 1990s. This phenomenon of job creation during a period of slow employment growth has led us to explore some of the issues highlighted in our Annual Report essay. The churn: the paradox of progress. The small change in total employment and unemployment gives the impression that not much is happening when, infact those small net changes mask huge gross changes that are revolving the economy" (Pg.2 FRB of Dallas Annual Report 192)*

McTeer was highlighting the phenomenon of growth in the American economy that came amidst the height and resultant controversy of job losses. While the American economy was losing jobs as a result of business closures, the economy was growing. The growth came from the new businesses created by entrepreneurs that created new jobs. Business closures and lay offs of workers in many businesses in Europe and North America was and continues to be a cause of worry for workers in these countries. Most of the big and most well known companies in the United States laid off workers in large numbers in the 1980s and early 1990s. These included General Motors, Sears, IBM, and Boeing among others (FRB of Dallas Annual Report, 1992) But as some organizations laid off workers, others created new jobs.

> "*New jobs trickle in but they don't usually make news. As Sears struggled, WalMart added new jobs. As IBM trimmed its work force…Microsoft climbed from 19,208 workers to 26,000 workers in 5 years. General Motors downsized as Honda, Toyota and Nissan and other Japanese companies opened plants in the United States" (Pg.4 FRB of Dallas Annual Report, 1992).*

Job losses were more visible than job gains. But despite the losses, the American economy was growing. Day in, day out, jobs are created and destroyed through business openings, closing, expansions, contractions and relocations. It is entrepreneurs who do this. They start-up companies, they expand, acquire and/or relocate business. As new companies come up they eclipse existing ones through newer and better products and services. The new and better products if successful out-compete existing ones, usually because they are cheaper or better. The existing products, and possibly even the companies that produce them, may downsize or close as they lose market share to the new ones. Downsizing or closing leads to loss of jobs but those businesses that open or expand usually create new jobs. In this way, an economy continuously recreates itself through the process of creative destruction, (Schumpeter, 1934).

This natural process of replacement of business enterprises by new ones, redefines existing jobs and creates new industries. This is called business volatility and churn, as described by McTeer (1992) and earlier by Reynolds and Maki (1981). This process eventually and continually reconstitutes and restructures the nation's economy. The process spurs income growth and creates wealth. This is the dynamic process of creative destruction. The paradox that economic progress destabilizes the world.

The process of firm start-up in a specific industry is a result of opportunity recognition in that area. It is entrepreneurs who perceive these opportunities and start-up new businesses to exploit these opportunities (Schumpeter, 1934; Kirzner, 1973). Once an opportunity is spotted and business is started, many other new players who gain information about the opportunities rush to join the process (Schumpeter 1934). This activity of rushing in by different players may result in the formation of an industry if the idea is economically viable. As more and more firms join, the industry grows. The industry goes through various phases, the birth, growth, maturity, saturation and possibly even decline and death. This is the industry life-cycle. In the various phases of the life-cycle, many firms may join depending on the type of industry and industry competitive forces. But others may also exit the industry. The reasons for exist could be uncompetitiveness, declining margins or new opportunities elsewhere.

New products or services or processes introduced by entrepreneurs keep an industry in constant change. This change leads to growth of firms, new jobs and job losses, and may also eclipse firms from the industry. Thus firms are created and may die. Similarly industries are created and change continually and may also die. Associated with this activity is growth in an economy. The person central to this is the entrepreneur (Schumpeter, 1934; Reynold and Maki,1981; and McTeer, 1992). The entrepreneur is therefore a growth instigator. Growth in an economy therefore can be attributed or associated with entrepreneurial activity.

4.2 New firm formation

Business start-up is a central activity of an entrepreneur and new business are a crucial component of the creative destructive process or the business churn. It is therefore important that emphasis be put on reasons why firms are started. Organisations are started with different objectives. Key among them is that there is demand to be satisfied because of an identified need (Drucker, 1985; Kotler, 2002). However, another important factor is the creation of wealth through earning of profits. Various researchers have contributed to this debate (Schumpeter, 1934; Kirzner, 1973, De Wit, 1993). The theoretical foundation for the debate lies in Schumpeter's and Kirzner's work.

4.2.1 Schumpeterian views

Schumpeter (1934) argues that new firm formation is a result of the burst of rapid and very productive economic activity that is caused by entrepreneurs in an economy. He argued that economic development was not a global harmonious process as advocated by neo-classical economists, but by discontinuous innovations instigated by entrepreneurs. He assumed a purely competitive economy in a stationary state as a starting point. In such a stationary state there are opportunities for new investments and it is entrepreneurs who recognize them and instigate them. The entrepreneur initiates the exploitation of the opportunity by introducing a new good or new method of production, or a new market or a new source of raw material or re-organizes an industry. This newness is an innovation. It manifests through starting up an organization or diversification within an existing one (Aldrich and Fiol, 1974). This view is supported by Drucker (1986).

As argued by Aldrich and Fiol (1994), such founders who rush into the industry may be foolish because they go to navigate areas that are not only risky because there is no precedent but do so in a hostile environment. A boom follows causing a secondary economic wave in many other industries. Competition intensifies as new firms enter the market. This lowers price and reduces margins, inefficient firms die or merge or are bought by efficient ones. In already existing industries, the new firms kill off the old ones.

The personal computer was invented in the early 1980s by Steve Jobs, a well known entrepreneur. Many new secondary industries and businesses have been started including printers, scanners, software and others. The result has been an enormous increase in a wide range of products and services translating into increase in GDP. However, the sale of typewriters plummeted and that industry is nearly extinct. This is the process of creative destruction described by Schumpeter, new firms kill off old ones. New technologies kill off old ones. This is also described as the churn or what Reynolds and Maki (1990) initially called business volatility.

4.2.2 **Kirzner's views**

Kirzner (1973) argues that when an economy is out of equilibrium, it has unexploited gains unknown to many people. The entrepreneur is simply someone who notices these opportunities and exploits them. This tends to move the economy to equilibrium. The entrepreneur is the person who is alert to such opportunities and there are different persons in an economy who are alert to different opportunities. The process of exploitation of these opportunities results into new firm formation. According to Kirzner (1979), profit is the reward for alertness. Those who are alert to opportunities and exploit them make profits. New firm formation therefore comes from entrepreneurs who are alert to unexploited opportunities and in exploiting them, they create organizations, create jobs and earn profits. Profit can therefore be seen as a motivator. As others realize that the opportunity is profitable, they join the industry. As more firms are started and join, profits reduce and those firms which cannot cover their costs exit the industry. The industry is therefore born, grows and can also die. The underlying activity is the churn which also results into growth.

4.2.3 **Approaches to firm formation**

The literature has three theoretical foundations which describe the emergence of entrepreneurship. There are the economists, the psychologists and sociologist approaches. These different approaches are important in understanding firm formation motivation. The economists allude to profit as a cause of entrepreneurial behaviour (Papanek, 1962; Harris, 1970). Entrepreneurs will start business in search for profit. This is the industrial entrepreneur model. The psychologists put emphasis on the personality of the individual. McClelland (1961) is a chief proponent of this view. People are motivated by their personality to achieve certain things. Those with a high need to achieve will thus venture into activities that will lead them to achieve the need. Entrepreneurs will start business with a desire to achieve something. It could be personal accomplishments, desire to excel, desire for a service or anything that their personality demands. Zalesnik and De Vires (1975) and De Vires (1980) attribute entrepreneurial behaviour to specific feelings of dissatisfaction, rejection, powerlessness, anger and hostility among others. The sociologists argue that entrepreneurial behaviour, including business start-up emerges under specific social behaviour. Hoselitz (1964) explains it as culturally marginalized groups, while Stanworth and Curran (1971) and Stanworth *et al* (1989) explain it in terms of social marginality. Kumar (1990) attributes it to caste. These different theoretical approaches underpin empirical studies to explain business start-up.

In a synthesis of views advanced by different schools of thought, Storey (1994) brings out other explanations for the firm start-ups which gradually lead to industry formation. He discusses the industrial economists view point and contrasts it with that of the labour market economist. These approaches explain why firms are started.

a. **The Industrial Economists Approach**

Citing Clarke (1985), Storey (1994), labels the industrial economists approach as the traditional approach to firm formation. He argues that the structure of an industry determines how firms behave, enter or leave the industry and how they also compete in the industry. It also determines how they perform. Entrepreneurs will thus start a business to enter an industry depending on the structure of the industry. Industrial economists tend to use the terminology entrant rather than new firms to describe the phenomenon of firm formation. Mueller (1992) categorizes entrants into five different types, a newly constituted firm, an existing firm that builds a new plant in the industry, an existing firm that buys a plant already in the industry, an existing firm that alters the product mix in the existing plant and a foreign-owned firm which enters an industry in one of the above forms as opposed to a domestic firm. All these are processes of creating something new, an innovation, a specific function of an entrepreneur (Drucker, 1985). These are activities that amount to perception of an opportunity and can be equated to start-up.

This school of thought argues that while newly constituted firms are the most frequent form of start-up, it is not necessarily the most important form of entry. Based on Orr's (1974) work, industrial economists suggest a model of entry which predicts causes of entry.

$$E = f(\prod, BE, GR, C)$$

Where E = entry

$\prod$ = Profits (+)

BE = Barriers to entry (-)

GR = Growth (+)

C = Concentration (-)

New firms will enter an industry if it is profitable and entry is determined by factors such as scale of economies, product differentiation and restriction to inputs. This is in conformity with the economist's theoretical proposition that start up is influenced by profit. In economic literature, the probability of entering an existing industry is a function of the expected returns in the industry relative to the next best alternative use (opportunity cost) of the resources so committed. There are limitations to this assumption. Not all entrants are new and not all exiting die. This is because many movements into or out of an industry may reflect the diversification and/or switching behaviour of exiting enterprises.

Storey (1991) provides the following definitions of the various types of entrants to a sector.

i) Those firms which are operating in industry *j and i* and no longer operate in both *j*, but which now also operate in *i.* These firms therefore currently operate in both *I* and j and are called diversifiers.

ii) Those firms which move from *j* and *i* no longer operate in both *j* and i. These are called switchers

iii) Firms which never operate in *j* or in any other industry. These are called wholly new firms (WNFs) and are therefore a subset of entrants.

Failing to recognize the above can lead into inflated estimates of the economic significance of WNF. Researchers use three main indices of new firm formation.

i) New company incorporations;

ii) Changes in the proportion of workers, classified as self employed; and

iii) New registrations for VAT.

Firm start-up, or entry into an industry, which takes different forms as discussed above (Mueller, 1992), is driven by the expected return existing in an industry. Returns tend to be higher in the early stages of an industry formation and reduce as competition grows and the industry grows and matures. While this is used to explain business start-ups, it tends to be more of an explanation of industry formation.

b. **The labour market approach**

While the industrial economists view firm formation from the point of view of entry into an industry, the labour market economists tend to view firm formation from the view point of desire for self employment. Industrial economists tend to assume that there are many entrants out there waiting to enter the industry whereas the labour market economists argue that there are certain characteristics (Rassan, 1988) which distinguish those who will go into self employment from those who will not. Those who seek self employment, Storey (1994) calls entrepreneurs. Such people have considerable personal drive, have a desire to succeed, have a family background in business, are more likely to come from a certain ethnic or cultural minority and are not team players. These fit in the prescription of psychologists and socialogists, theoretical propositions to the emergence of entrepreneurs and entrepreneurial activity (Alango *et al*, 1988; Chell *et al*, 1991; Begley and Boyd, 1986).

The labour market economists draw their intellectual inspiration from the work of Knight (1921). He argued that an individual could choose from one of the following states: unemployment, paid employment or self employment. Moving from one state to another depends on several factors including the relative prices of each. Storey (1994) proposes that the decision to seek self employment is influenced by three major factors; the personality of the individual, human capital and ethnic origin. Storey's proposals are drawn from work by others in this area, some of who are mentioned below.

Blanchflower and Oswald (1990) and Blanchflower and Meyer (1991) examine the personal characteristics of individuals and assert that entrepreneurial vision is a major factor that determine whether a person starts a business or not. Other economic psychologists whose works support this view point and introduce related dimensions include Haworth and Brearly (1991), Chell (1990), McClelland (1961) Considine et al, (1988), Kets de Vires 1997 and Stanworth *et al* (1989).

In further understanding personalities, McClelland's work is important. McClelland (1961) argued that the need for achievement was more intense in entrepreneurs than non-entrepreneurs. This would drive them to start business. Chell (1990) argued that entrepreneurs are more proactive, are innovative and easily get bored. Ketz de Vries (1997) argues that individuals with unhappy family background tend not to accept authority easily and thus want to be independent. Family background, parents having been in business before are all cited by Stanworth *et al* (1989) as influencing factors to the personality of a person who wants to be self employed.

Another factor, according to Storey (1994), that determines whether a person goes into self employment or not is human capital. Evidence on this from various researchers tends to suggest that persons who attain higher levels of education tend to start their own business or seek self employment. Pickles and O'Farreh (1987) argued that the educational attainment of entrepreneurs in Ireland tended to be higher than that of the general population. They however pointed out that the highest levels of educational attainment tended not to enter business. In the United States, most research has shown a positive correlation between educational attainment and the move into self employment/new business formation. Studies by Evans and Leighton (1990) showed that for both employed and unemployed the probability of moving into self employment increased with education.

Human capital however, is not restricted to education. It includes and actually may be more influenced by the experience a person has. Some studies conclude that those who were formerly employed in small business are more likely to start their own business (Cross 1981; Gudgin *et al,* 1979). Other studies indicate opposite results (Keeble et al, 1990). Another variable that influences human capital is managerial experience. It is generally believed that those with managerial experience accumulated over years in running organizations tend to start their own business. They build on what they have learnt to be able to perceive an opportunity and start a business. Social networks also add to the human capital of an individual.

Ethnic origin is another factor that Storey suggests influences whether one goes into self employment or not. Migrants from one country to another tend to go into self employment more than the local population. For example Jewish immigrants into Europe (Loebl 1978) and the Indian and Pakistan immigrants into the UK (Jones *et al,* 1993) have tended to go into self-employment. Immigrants generally are forced through inability to secure alternate employment.

Firm formation under this approach is therefore a result of personal decisions of entrepreneurs who start a business and enter an industry for reasons cited.

4.3 Factors influencing new firm formation

Business start-up involves perception of an opportunity and information that the opportunity may be exploited profitably. This therefore involves a deliberate decision to take risk and venture out into the unknown. Three main factors are discerned from the literature as influencing the decision to form new firms. These include; economic, human and institutional factors.

4.3.1 Economic factors

Economists have put emphasis on the importance of alternative employment opportunities, unemployment, the expected benefit from going into business and the influence of macro economic conditions upon new firm formation rates (Keasey and Watson, 1993). The GEM model also highlights the importance of economic factors. There are differences in approach, however, despite these differences Knights (1921) and Acs and Audrestch (1989) all tend to agree that it is the net benefit from becoming an entrepreneur relative to employee status that is likely to influence the decision to start a business.

The literature on new firm formation assumes that individuals have a choice of being employed or starting their own firm (Evans and Joavanic, 1989; Blanchflower and Oswald, 1990; Audretsch, 1992). If you are employed, you receive a wage, if you do your own business, you receive a profit. Entrepreneurs tend to see things differently and have superior judgment, which means they can handle complex and ill-defined problems better than other people. One cannot be certain that his judgment is better than others because others may know things he does not, but confident individuals may nevertheless act as if they possess relevant information not available to other people (Casson, 1990).

Profitability

Profitability, the net benefit of a venture is therefore key in business start-ups. The profitability of founding a new firm (PrE) is a function of the difference between:

P = profit from a venture; and

W = the wages received when employed

$$PrE\ f(P - W)$$

Other factors besides profit and wages also affect PrE. These include public policy to support start-ups, general level of economic activity and human factors.

$$PrE = f(P - W, H, I)$$

H – Human factors

I – Industrial factors

P is influenced by both micro and macro economic factors. At the micro level (Reynolds and Maki, 1981; Keasey and Watson, 1993) P is influenced by the economies of scale in the industry, uniqueness of the product or service the cost of barriers to entry, minimum efficient size and the degree of competitiveness of the industry.

Macro economic factors that influence P include the general level of economic activity, changes in the cost of capital and labour inputs, public policy initiatives and their impact on costs, revenues and taxes. Likewise W will also be affected by those same factors though not necessarily in a similar manner (Keasey and Watson, 1993).

There is usually a positive correlation between new firm activity and the level of economic activity. For instance, in a recession, the value of P is expected to fall significantly and the gap between P and W narrows. This tends to depress firm formation. In an upswing, P rises faster than W hence an increase in new firm activity. This is the pull hypothesis where by individuals are attracted to starting their own business. The push hypothesis is when for some individuals without jobs in a recession the gap between P and W may actually rise and this makes/pushes them set up new firms (Cleveland *et al*, 1986). New firm formation is thus a measure of economic growth.

The assumption that people will choose between being employed and starting their own business is rather simplistic when applied to developing countries with massive unemployment. GEM studies (Rosa et al, 2006) are now distinguishing between opportunity and necessity entrepreneurs. Those who start business as a result of a desire to exploit an opportunity they perceive maybe the type with a choice. The model also assumes that everybody is able to perceive the opportunity and can therefore make a choice. This is not true since entrepreneurial skills are not equally endowed to all people. This limits this model. Indeed Kirzner (1973) argued that only a few people had superior knowledge.

4.3.2 Human factors

Most of the entrepreneurship literature tends to put an emphasis on human factors. The various entrepreneurship theories discuss the individual. Among these factors are the objectives and personal characteristics of new firm founders. These include life cycle attributes, gender, ethnic origin, and education (Keasey and Watson, 1993). Results from various studies indicate the following:

a) Primary motive for small firm owners to start is to escape from what they saw as undemanding and unfulfilling jobs (Scase and Goffee, 1987; Keasey and Watson, 1993).
b) The desire to be independent is also cited as one of the reasons indication in various studies (Keasey and Watson, 1993).
c) Desire to develop certain skills which will give people life long satisfaction and occupation.
d) New firm founders are expected to earn a modest income from their business activity not maximizing lifetime earnings (Keasey and Watson, 1993; Reynolds and Maki, 1981).
e) Some studies also indicate that groups and individuals from particular social backgrounds or those that have grown up where business is run and found to be likely to start-up their own business.
f) Studies also indicate that individuals that are disadvantaged in the labour market due to ethnic or religious origins, age, gender, or lack of relevant

educational qualifications have also a greater propensity to set up their own firms (Hoselitz, 1964; Hagen, 1964, 1968; Weber, 1978).

Empirical evidence suggests that individuals who start businesses do so more because of social and personal factors rather than the economic. Other characteristics that tend to enhance an individual's motivation to start business Include:

(i) Less risk averse – influenced more by an individual' life cycle, wealth and social class position.

(ii) Has some specialized knowledge or skill which can be exploited without requiring prohibitingly high additional investment in human and physical assets. A person trained as a lawyer, an accountant or doctor is likely to start-up a business as a law firm, accountancy firm or medical services practice respectively

(iii) Dissatisfied with his anticipated or actual employment or social status may be due to ethnic, religion, or educational disadvantage.

(iv) Have access to small business role models. If a person has seen somebody whom he wants to emulate and is doing business, he too is likely to start-up.

4.3.3 **Institutional factors**

Institutional factors are public policies to support business star- up. These include; exemption from certain taxes and employment, health or safety and financial reporting legislation. Many countries set up agencies to attract investments and provide incentives to individuals who do so. These could be tax holidays or exemptions, special allowances to locate in certain parts, among others.

4.3.4 Conclusion

Start-up is a process largely attributed to entrepreneurs (Reynolds and Maki, 1981; Storey, 1999). Start-up brings jobs and new production services and processes. The newness is in the form of innovations which usually displace existing products or services. As the old products and services disappear so do jobs.

This is the creative destruction reported by Schumpeter or the business churn. The process of creative destruction gives rise not only to new firms and products or services and processes, but may create entire new industries. These industries will also go through the life cycle like any other leading to new industries or re-generation of existing industries. Underlying this churn is economic growth. This is the process that creates growth in an economy.

4.4 Firm deaths

Business deaths are business failures. There are different definitions of failure. Watson and Everitt (1993) equate business death to business failures. They identified four types; discontinuance for any reason, ceasing to trade and creditor loss, sale to prevent further losses, and failing to make a go at it.

Using these definitions some of which do not mean loss of profit, but simply a change in circumstances, Watson and Everitt (1993) in their study found that 52% of their sample had failed.

Storey (1994) synthesizes information of failure and lists various factors that influence probability of failure. He includes; size of the firm, its age, ownership, the sector it operates in, past performance, macro economic conditions, its location and management.

The literature on firm deaths is scanty. The usual economic assumption is that firms that cannot recover all costs of production in the long run close business. Profit making businesses are assumed to continue in business. However in actual practice that is not the case. Various researchers have made a contribution to this debate: Bulow and Shoves (1978) argued that the 'continue versus liquidate' decision depended on the relationship between the owner of the business, their bankers and other creditors and also whether the legal framework gives priority to creditors. Where the owner has an excellent relationship with a bank and the bank has confidence in him, the business may continue in operation even if it is making losses because the bankers and creditors believe the business will go through its current problems.

Bulow and Shoves (1978) also showed that a firm's debt structure influenced the decision on closure. If a firm had long term loans and a high proportion of cash and liquid assets they were more likely to stay in business. Reid (1991) and Baden-Fuller and Stopford (1989) argue that the decision to close depends on the relative net costs of continuation versus immediate closure. They express it as follows;

$$\prod < r\,C - C1$$

Where $\prod$ = present value of anticipated profit in the coming period

C = residual value of plant if scrapped

r = rate of interest

C1 = present value of anticipated gain in scrap value from deferring closure.

Reynolds (1988) argues that in industries where firms have a single plant and identical costs, it is difficult to determine which firms will exist first. However, if the industry is composed of firms with multiple plants then those which are bigger will close plants before their smaller rivals. Jovanovic (1982) had introduced a model that dealt with the characteristics of the individuals who operated the businesses. He argued that at the commencement of a business, the individual and the financier are ignorant of what will happen to the business. As the individual starts the business he learns how the business can succeed and revises his behaviours. The bank/financier does a similar thing. Those who revise their abilities upwards expand, those who revise them downwards tend to contract or go out of business. The value of this model is that it tends to explain why younger firms have low rates of survival than older ones (Storey, 1994).

Poor economic conditions resulting from unfavourable economic policies may also cause business failure. High interest rates and inflation are examples. A related cause of failure is developments in a sector. A sector or specific industry may experience changes in technology which makes current products obsolete. If the organization fails to adapt to the changing technology, its likely to be driven out of business. Changes in demographics may influence relocation of business from one place to another.

4.5 Industry formation

The start-up of firms in a new area is a result of an opportunity recognized by entrepreneurs who are alert to opportunity (Kirzner, 1993; Schumpeter, 1991). The start-up is both a cause and result of an innovation. Such a start-up may be the birth of a new industry altogether. How then are industries formed? Several theories have been proposed. This includes the population ecology model, the stage model, the industrial economist's model and the resource based model (Hannan, 1986); Hannan and Freeman, 1989; Hannan and Carrol, 1992; Horvath et al, 2001; Geroski and Mazzucato, 2001). All the different models draw from Schumpeter theoretical formation of start-up and industry growth.

True to Schumpeterian arguments, once an innovation has been commercialized through business start-up, it attracts new entrants to the industry. This entrance is what Schumpeter described as the swarm like activity. A large number of new firms crowding into an activity. This may result into the formation of an industry. An industry is a group of firms supplying or producing or dealing in the same or similar substitute products (Thompson and Strickland, 1987; Aldrich and Foil, 1994). The industry is constituted by producers, their suppliers, the buyers and the products.

Only two of the four models are discussed below giving an insight into the nature of formation of industries.

4.5.1 Ecological model

According to the ecological theorists, an industry is formed if an increasing number of firms enter it. Hannan (1986) identified that an increasing number of organizations provided legitimacy to the organizations and the industry. A gradual increase in founding rates was followed by a decrease in disbanding rates. Ecological theorists provide empirical evidence of lower founding and higher disbanding rates when industries are small. Small here should be seen in the sense of volume and value of market possibilities. This makes the players small size. Large volume and value of market attracts more players. Hannan and Carrol (1992) argue that when the number of organizations in a new industry is small, the organizations have a lower chance of survival. This can be attributed to the unattractiveness of the industry though industries with heavy investment requirements usually having entry barriers that may reduce the number of entrants.

As the industry grows and organizations increase in number, organizations raise the legitimacy of the industry in both the cognitive and socio-political dimensions. Cognitive legitimization is knowledge about the new venture or activity. What is required for the organisation to succeed in an industry? Hannan and Freeman (1989) noted that when an activity becomes so familiar and is well known, it is taken for granted. If this happens, new ventures are easily accepted. Cognitive legitimacy is thus measured by the level of public knowledge about a new activity. The highest form of cognitive legitimation is achieved when a new product or service is taken for granted. Social, political legitimation is the process by which key stakeholders; the general public, key opinion leaders or government officials accept a venture as appropriate and right given existing norms and laws.

Socio-political legitimation is measured by assessing public acceptance of an industry, government subsidies to the industry or public prestige of its leaders (Aldrich and Fiol, 1994).

Aldrich and Fiol (1994) argue that founding a new venture is a risky business especially when there is no precedent for the kind of activities an entrepreneur wants to found. They argue that such founders appear fools as they navigate a vacuum of indifferent magnificence and hostile environment. While examining the social processes surrounding the emergence of new industries, they found that there were various factors that determined industry success. The state of the economy, latent demand for the product or service, competitive pressures from the related industries and skills of new venture owners and workers. They however argue that legitimacy was the main determinant of success of an industry. Legitimacy is full understanding of the nature of the new ventures and their conformity to established institutional rules.

4.5.2 Industrial economists model

The industrial economist model was referred to in section 4.3.3(a) explaining why firms are started. The model however explains industry formation rather than firm formation. Storey (1994) argued that the structure of an industry determines how firms enter and leave the industry. More firms will be attracted to an industry if profitable. The higher the profit the higher the rate of new entrants. The rate slows down with reducing profitability. Horvath *et al,* (2001) provide their own explanation for the commonly observed pattern of industry evolution; the exponential rise in entry into a new industry followed by a shake out in which the number of firms drops significantly in a short interval of time. They documented empirical evidence concerning the evolution of the US beer industry in the 19th century and the US beer industry and tyre industries in the early 20th century.

They found that the US beer industry saw a wave of entry between 1870 and 1879 when the breweries more than doubled and the shake out period 1880 to 1890 which the firm dropped by 40%. The firms that left the industry were those that had entered the industry in the wave. They observed a similar pattern in the US automobile and tyre industries. They observed that while entry rates fluctuated, the timing of the exit for firms that enter at a certain time was similar over time. Horvath *et al* (2001) argue that exit from industries requires no explanation, however, it is entry that does. According to them entry is determined by information accumulated by entrepreneurs. This is contrary to the earlier view that puts profit as the main pull factor. Studies by Geroski and Mazzucato (2001) support a common view that profitability and entry barriers are not what determines entry. The main determinant of entry is accumulation of sufficient information about the industry. In their model, Horvath *et al* (2001) find evidence that later entrants have higher probabilities of exit at any stage which tends to confirm their view that early entrants earn higher profits and survive longer therefore stay in the industry longer.

Factors which influenced the growth in the beer industry in the USA were technology and demographic factors. Increased raw materials, better transportation, more wealth and numerous technological changes led to changes in the industry and impacted on profitability. The migration of skilled labour from Europe also influenced production. The level of economic activity thus influenced start-ups and entry into the industry and its growth.

4.6 The industry life cycle

As mentioned earlier, industries and indeed organizations, have life-cycles. They are born, grow, mature and may decline or die. However, not all organizations or industries go through the same stages. Others stay in one stage for longer periods others for shorter periods. Some may die before they mature. Some organizations and indeed industries are resilient and may stay for a long time. Even at a stage where they have matured or are in decline, they may be renewed and may grow again. Entrepreneurs have an important role in this life cycle. By perceiving, seizing and exploiting opportunity (Kirzner, 1973; Drucker, 1995), they create new firms. Alexander Graham Bell who invented the telephone started up an entire industry. Steve Jobs started up the personal computer industry by inventing the desktop computer. By innovating, entrepreneurs stir-up things and open up more opportunities leading to new start-ups, expansions or closures and downsizing. When an opportunity is perceived and exploited many other entrepreneurs join in to cash in on them (Schumpeter, 1934; Kirzner, 1973; Aldrich and Fiol, 1991; Horvath *et al*, 2001). As this swarm like activity increases, firms are born, others expand and others may contract or close (creative destruction or churn). As new firms are created, they result in the formation of an industry.

> *"New firms (ventures) are independent organizations initiating the new activity and industries are groups of organizations with similar products or processes"* (Aldrich and Fiol, 1994).

The pattern and timing of the phases of the industry life cycle is different from industry to industry. Almost all industries have a similar growth, maturity and decline process though the timing and pattern are different. This pattern is generated by entrepreneurial activity over time. The industry is created or may be rejuvenated because of a new technology or product or process that has emerged or because of the competence of a certain organization (Horvath *et* *al*, 2001; McGahan, 2004), this is innovation. Indeed, even changes external to the organization like macro economic policy or movements in population may cause a change in an industry. The industry may grow, stagnate or decline. Growth means the industry is profitable and profit attracts new entrants. Competition intensifies as new firms join the industry and as cost structures change, margins decline. Due to competition, the weaker companies either die and close or are bought or merge with the strong ones. This is the stage known as the shake out (Horvath *et al*, 2001). The industry subsequently matures and settles down. Margins become very small because of common information in the industry that standardizes cost structures. This makes the industry unattractive. At this stage, there are hardly any new entrants and the industry is saturated. The industry declines unless new markets, new use of products, new raw materials or new technologies are found to reinvent it. This growth and mortality of firms is what is referred to as the industry churn.

Phases of an industry life cycle

Porter (1986) and Thompson and Strickland (1987) bring out the phases an industry goes through in its lifecycle. Not all industries go through the same pattern or follow a similar time period. Each is unique in its own way (Klepper and Simons, 1993; Klepper 1996; Harvarth et al, 2001). The phases an industry goes through are as follows (Figure 4.1);

i. Early development

ii. Rapid growth

iii. Take off

iv. Competitive shakeout and consolidation

v. Early maturity

vi. Saturation

vii. Decline

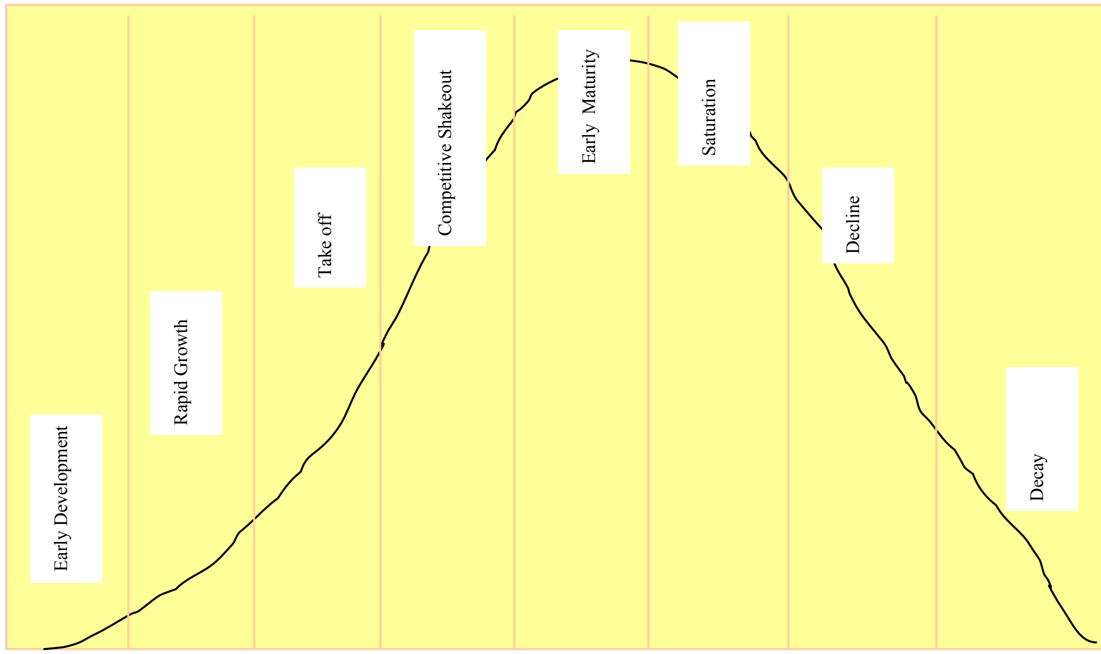
viii. Decay

Early development

This is when an industry is just being formed. It is a stage which follows invention and commercialization of a new technology or the founding of a new product or new process. At that time, led by a few entrepreneurs, an opportunity has been perceived as suggested by Kirzner (1973). Those who have superior knowledge start up businesses to exploit opportunity. There are a few firms in the industry at this stage. The opportunists perceived a result of numerous factors but key among them is macro economic conditions and technology (Keasy and Watson, 1993; Taylor, 1999). Changes in technology lead to new products while policies like deregulation causes opportunities as governments get out of production or removes barriers to production and/or trade. Nobody knows whether the technology, product or service will be successful. This is a stage of high risk taking and high reward through high profits.

Figure 4.1: **The industry life cylce**

Growth/ Profit



Time

Source: Thompson and Strickland (1987)

Rapid growth

At this stage, the existing firms are making a lot of profits. The industry is profitable and growing very fast. The industry is attractive and many new firms enter it. As other people come to learn about the opportunity they are able to take decisions to enter the industry (Evans and Jovanovic, 1989; Taylor, 1999; Audretsch, 1992). They enter in large numbers depending on the nature of entry barriers. This is the swarm like activity described by Schumpeter (1934). “Fools rush in” is a rhetoric question asked by Aldrich and Fiol (1994). They ask whether those who rush to join an industry are fools. They rush to join in but still do not know what to expect. They rush into an institutional vacuum and hostile environment. Competition becomes very intense. At the time an industry is very profitable many potential players study the industry. Feasibility studies are made and sent to banks in search of funds. Those who accumulate enough information about the industry, including the market, cost structures and pricing will decide to enter. This affirms findings by Geroski and Mazzucato (2001) that accumulation of sufficient information is a basis for entry into an industry. This is a stage of peak job creation.

Take off

At this stage, the industry is now firmly established and certain. It has become legitimate (Hannan and Freeman, 1989). It is not expected that the industry as a whole will collapse. The technology, product or service has become widely accepted. Firms in the industry start taking positions. Firms are grouped as market leaders, or one of the market leaders, followers, niche players and also ran companies (Strickland and Thompson, 1987; Kotler *et al*, 1986). The major players become well established as leaders or one of the market leaders and all other firms take up their market positioning depending on their strategies and market share. Positions are concretized. Industry cost structures are formed and concretized. New entrants reduce in number as more entry barriers are formed.

Shakeout period

As competition intensifies, the players jockey for position (Porter, 1980). Firms cut costs, margins reduce. Survival depends on efficiency in operations. Economies of scale become more important. Firms merge to create stronger organizations that can take advantage of their scales of production. Some smaller firms differentiate products or create niche markets that are unique for survival. Profitability in this stage is low. The weak firms exit. They are either bought or closed. This is a process of industry refinement as suggested by Klepper and Simon (1993) and Klepper (1996). Horvath *et al,* (2001) concluded that exponential rises in entry was followed by a shake out which normally leads to a significant drop in the number of firms in the industry. This is the stage of peak job losses. However, the exit by firms may not affect the size of the industry production capacity. Job loss in such circumstances does not lead to reduction in production of goods and services.

Maturity

After the shakeout the industry tends to settle down. It matures, key players are known, profitability is low and is known. This acts as an entry barrier as the industry is not attractive. Cost structures are also known by everybody in the industry. Competition is not very intense. There are hardly any new entrants or exits. At this stage, the industry becomes accepted and cannot die easily (Boone, 1995). It is accepted by the public and it becomes legitimate (Aldrich and Fiol, 1994).

Saturation

The industry peaks. There is no growth in volume or profit. Changes are within existing firms. These maybe re-arranged through mergers, consolidations and even entry into new industries to support the existing operations.

Decline

An industry starts to decline when the demand for a product reduces usually as a result of strength of a substitute product or emergence of a new product that constitutes a whole new industry or key technology in the industry becoming obsolete. Sales volume starts to decline as the market shrinks. The decline will be progressive unless if a new technology emerges in the industry or economy. Technology may be the primary reason that renders existing products or processes obsolete. The new technology shifts demand from the existing products. This is the paradox advanced by Schumpeter (1959). New technologies cause death of existing products and jobs, but they also create new jobs. Schumpeter attributes this to the entrepreneur. Some firms are slow to adopt and stay and drift in the existing industry. Many fail and close or those that perceive new conditions exit deliberately to join the new forming industry. At times the industry may be rejuvenated by a new technology or a new market that creates additional demand for the existing product or service. Computers have replaced typewriters. If there is no rejuvenation, the decline leads to the next phase, death.

Death/decay

Continuous decline of an industry finally leads to decay and eclipse completely. All the firms in it either die or exit. The decline and or death of firms is followed by job losses. The decline and death of an industry is caused by reducing demand for a product. Globally, many industries have declined and some are completely obliterated as a result of new products or technologies. The computer killed the typewriter industry and redefined the industry. Typing was a profession for secretaries. This is no longer the case. In the music industry, music was available on vinyl records. This has evolved through the cassette, computer discs (CDs) and now the Music Players (MP). Plastic is replacing steel in many products. CDs have replaced vinyl records. However, reducing demand is also a reflection of a substitute product being developed and at increased demand. The new product creates new organizations and possibly new industries but kills off old ones (Schumpeter, 1934). This activity is driven by the entrepreneur (Schumpeter, 1934). The underlying events are economic growth.

While these are the usual stages, not all industries actually go through these stages, some go from rapid growth to decline, and others survive for a long time.

4.7 Growth competition and shakeout: The business churn

The industry attracts numerous players depending on the industry structure and availability of information in the structure. The industry grows both in volume of activities and number of firms depending on the industry conditions that have been discussed above. Growth is primarily a function of demand and how that demand is harnessed. Demand is a function of the size of the population and the wealth of that population. As margins reduce, changes take place in the industry. A shakeout starts.

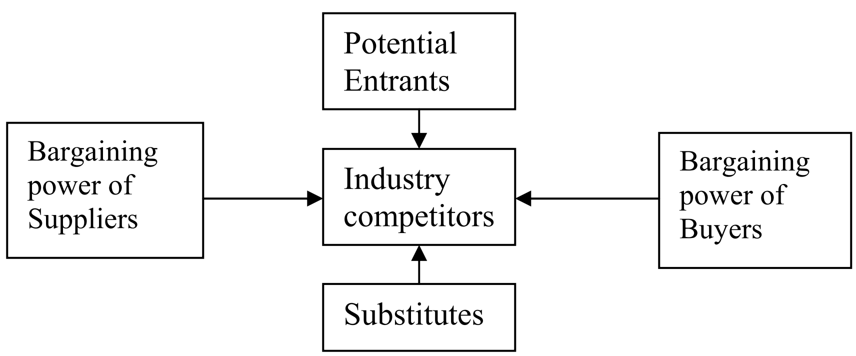
Shakeout is a point when firm exit rates increase and entry rates decrease. The shakeout is determined by many factors but primarily by the intensity of the competition. What determines the nature and intensity of the competition? The primary driver of competition is competitive advantage. Competitive advantage is an edge an organization has over others. (Porter, 1980) It may come from different sources. This may be people, time, customer service among other sources. However, innovation, i.e. new products, new processes or new raw materials, is the sustainable driver of competition.

Different researchers have different evidence. Klepper and Simons (1993) examining four industries failed to identify technological innovation with the shakeout on those industries. Klepper and Simons (1993) and Klepper (1996) offer explanations for the shake out as being a process refinement emerging from the ability of large firms to get scale advantages and establish standards.

If demand is not increasing, profit margins of new entrants decline to zero and overtime such firms become unprofitable and exit the industry. In the study some industries took two years to reach their peak while others took more than 50 years, with an average of 29 years. Delacroix *et al,* (1989) assert that industry entry and exit patterns are the result of competition and industry consolidation. Others who support Aldrich and Fiol (1994) regarding the influence of social factors in industry formation are Klepper and Gladdy (1990). In their findings they conclude that time required for industries to become established depended on the the time the early founders take to develop cognitive and socio political legitimacy. An industry will attract new entrants if it has profit and growth potential (Thompson, 2003).

Michael Porters' five forces model

Figure 4.2: **Porter's five forces competitive model**



Source: Porter, Michael; (1980): Competitive Advantage, Pg.6

Porter (1980) developed a model for analyzing the structure of an industry. He argued that five forces determine the profitability and intensity of competition of an industry. These are entry and exit barriers or the threat of new entrants; the bargaining power of buyers; the bargaining power of suppliers; and the threat of substitute products or services; and the rivalry among the firms in the industry. According to Porter, competition is shaped by these factors and they determine who enters, who exists, who stays in the industry.

Barriers to entry

An industry with barriers to entry tends to limit entry into the industry. This may serve to reduce competition and may not lower margins. Several factors may create barriers, for instance capital required to be invested and a long gestation period of a project. If starting a business requires large sums of capital, then entry may be restricted. Industries like car manufacturing, power generation, bottling plants, require substantial amounts of capital and therefore have barriers to entry. Economies of scale are another factor. If existing firms have economies of scale and new entrants need time to acquire such scales, then barriers exist.

Switching costs is another factor. Existing customers in a market have to consider the costs of switching to a new supplier. Switching to solar power from thermal power in Uganda requires a new set of wiring of the premises. Why spend these additional costs if the existing provider is doing relatively well. In such cases entry into an industry will be restricted. Another factor is access to distribution channels; existing firms may have control over existing distribution channels either through vertical integration ownership or distributors may not have the incentive to change. This creates barriers. Industry with barriers to entry may therefore not have intense competition due to the small number of players.

The bargaining power of suppliers

If the suppliers to the industry are powerful, they may have control over the industry and dictate pricing structures and hence profit and degree of competition. Some industry players may on the other hand acquire the supplier or have long term contracts with him. This limits the intensity of competition as not many new entrants will come along. Industries like power generation supply, telecommunications, petroleum products have a few powerful suppliers who control prices and competition.

The bargaining power of buyers

If buyers have the ability to influence prices in the market, they may change the nature of competition as they depress profits. For instance, car manufacturers are buyers of car parts and they influence prices. Supermarkets are also powerful buyers who tend to dictate prices of their suppliers and lower their profitability. Such markets are difficult to enter. Competition is thus less intense in such industries.

Threat of substitute products

Demand for a product which has close substitutes will increase if its price goes down and demand will reduce is price goes up. Close substitutes therefore determine the elasticity of demand for the product or service. Product/service differentiation creates customer preferences making the product less price sensitive. This way a firm introduces barriers to entry and reduces the intensity of competition retaining high margins.

Rivalry among existing competition

The existing firms in an industry compete against one another jockeying for position. Firms may compete on the basis of price, advertising, promotion, innovation, service or other competitive edges that a firm may develop. The intensity of the rivalry/competition depends on the above factors. Besides the rate of growth of the industry, cost structure, investments, growth also adds to competitive pressure. The larger the number of competitors, the more the competition. Cost structures also influence competition. If fixed costs are low, competition is more intense. If exit barriers and costs of leaving the industry are high a firm will stay in there and compete even with low margins.

Criticism of Porters' model

Porters model is a good analysis for what happens in an industry at a particular point in time. However, it does not consider issues of process innovations (Malebra and Orsenigo, 1996). Technology is a major factor that shapes competition in an industry. It may be new products or new processes. Nonoka and Takeuchi (1995) argue that Japanese companies are not successful because they are efficient but because they manage the knowledge in organizations well and spread it. Reasons for firm entry in an industry may not be just profit or that the entrepreneur has information about the industry. This tends to limit Porters analysis

4.8 Conclusions

This chapter has reviewed the literature and firm formation giving Schumpeter's and Kirzner's views on start-up and firm closures. Literature is also reviewed on how industries are formed, how they grow and shake out. In these processes the role of the entrepreneur is highlighted. Literature including the empirical studies by Storey (1999) confirms that business start up is function of the entrepreneur and this start-up created jobs in its wake. Start-up however, may be entirely new, which may create an industry or may be as a result of new technology in the same industry that leads to the displacement of the existing firms. Start-up is a process of perceiving and exploiting opportunities (Reynolds, 1981; Storey 1994). Entrepreneurs are individuals who are specialized in making judgmental decisions about coordination of scarce resources (Casson, 1982) Entrepreneurs exploit these opportunities to realize gains from them. There are various motivations for start-up. The industrial economist approach concludes that start-up is motivated by pursuit of profit, therefore they are opportunity based. The labour market approach concludes that start-up is motivated by search for employment, in a way this is necessity based.

When an idea or technology is drastically new, one or a few entrepreneurs perceive the opportunity and start-up. But as more people get information about the opportunity, they take a decision to enter the industry. This decision leads to growth of an industry. The industry has a life cycle. It is born, grows, matures, and may die. Industries change with changes in the environment. Technology, economic policy, political and social development drive the growth and changes in an industry. The primary change drivers are technology and competition. Each industry has respective forces that shape it. These forces determine the nature of competition and actually cause change like entrance and departure of firms from the industry.

Taylor (1999) calls this the shakeout and attributes it to deregulation and privatization, introduction of new technologies and new products and entry of new competitors from the other industries and countries. Hopenhayn (1994) and Jovanovich and MacDonald (1994) also attribute firm births and deaths to technological innovation.

Industries are thus in a continuous state of evolution. They change continuously going through different phases (Porter, 1986; Thompson and Strickland, 1987). Underneath this process is growth in the economy. This process has important stages and activities. There are stages where there is a rapid entry of new firms. As they enter, they create jobs. There is a stage of shake out where jobs maybe lost. The process of entry and exist represents the churn, the paradox which Schumpeter described as the process of creative destruction which causes growth in an economy.

Developed countries were at one time worried about job losses as factories closed and moved to new locations in Asia. This happened starting in the 1970s as growth in Asian countries started. In Europe and North America, the feeling was job losses would lead to loss of growth in the economy. However it was Schumpeter who much earlier had offered the explanation for the paradox. He advanced the paradox that economic progress destabilizes the world. Progress and job destruction go hand in hand. This is the dynamic process he called creative destruction, the churn. It is a reflection of new businesses starting in an economy, it is business expanding, contracting, relocating and closing. This creates new products with it, creates new jobs and has a multiplier effect as new businesses and new jobs are created and lost. This process causes growth in an economy. Schumpeter argued that the entrepreneur was central to these processes and was the instigator of growth. He argued that growth was the product of the disruption of the equilibrium in an economy.

In Chapter 2, 3 and 4 we have reviewed the literature in an attempt to find the relationship between entrepreneurship and economic growth. As stated, governments world wide and multi-lateral organizations including the World

Bank, ILO, IMF and UNDP have over the years attempted to find solutions to the problems of under development in developing countries of the world. The rich industrialized countries made a break-through from the period of industrialization and the majority of poor countries have done literally everything in the book but have been unable to transform their economies from developing to developed.

The various economist including classical and neo-classical put their emphasis on capital, labour and technology. Various models have been formulated and these include models for economic growth and development. Other conditions have been stated theses include macro-economic conditions governance etc. However, few economists mentioned entrepreneurship as a major determinant. Schumpeter argued that entrepreneurship was an instigator of growth. Schumpeter has been supported by Kirzner, Baumol and in recent year the GEM studies and Wennekers and Thurik, (1993), Audretsh and Keibach (2004).

GEM was the first attempt to systematically study this relationship. In the model (see chapter one), they take the nescent and novice small entrepreneurs as a unit of study. To date GEM had not considered the large scale existing firms. In the literature review, the portfolio entrepreneur, a large scale entrepreneur is identified as the most important type. This is the gap that the study seeks to explore. The study identifies portfolio entrepreneur as the key orchestrators of growth in their various contributions and it focused on how they contribute to economic growth.

CHAPTER FIVE

METHODOLOGY

5.1 Introduction

The primary objective of this study was to establish whether a relation exists between entrepreneurship and economic growth. Entrepreneurship is however a difficult and complex concept to define or describe. An entrepreneur can be a person or group of persons or an organization, it is a micro unit. Entrepreneurship is a social phenomenon and understanding or describing it precisely continues to evade researchers. It is a concept drawn from social, economic and psychological foundations thus making a precise definition elusive. Economic growth on the other hand is a macro phenomenon which is more conducive to quantitative measurement.

The study attempts to establish a relationship between these two. The relationship is indeed complex and involves taking into account a large range of factors which are difficult to separate. However, Uganda as a small economy presents the opportunity to reduce this complexity, making it easier to directly observe links between entrepreneurship and economic growth. This is the “laboratory case”, which is discussed further later in this chapter as a methodological approach. This chapter outlines the methodological considerations in conducting the research and the specific methods used in the process of examining the relationship.

There is a dearth of empirical studies in this relationship and thus no clear theoretical framework. The Global Entrepreneurship Monitor (GEM) studies provide the first model to link micro and macro elements of the relationship between entrepreneurship and economic growth. In the GEM model there is a clear dependent variable (economic growth) and a series of independent variables that interact and may cause economic growth (*see Chapter* 2 Figure 2.2). It is constructed in a way that lends itself to a classic deductive study, in which hypotheses are constructed from the relationships in the model, and systematically tested using appropriate statistics. To be able to apply statistics, variables have to be defined, operationalised, validated and measured. The results can then provide clear indications of the strengths of relationships, cause and effect, and hypotheses can be confirmed or falsified.

In practice the GEM model, like many deductive models in the social sciences, is not so straightforward to operationlise and test. Key concepts such as "economic growth", "entrepreneurial opportunities", "entrepreneurial capacity", "business churn", "opportunity and necessity entrepreneurship" are complex and difficult to define and validate (Rosa *et al*, 2006). Additionally, models such as the GEM shed little light on entrepreneurial processes that may cause shifts from A to B. For example there may be a link between "entrepreneurial capacity" and "economic growth", but how does this materialize as a process? Causation is made even more complex by contrasting scales. The entrepreneur and his or her behaviour is a micro phenomenon. Economic growth is a macro phenomenon. Relationships between phenomena at different scales are very difficult to measure accurately.

It is because of these complexities and difficulties that a full deductive study was premature, particularly in the context of Uganda. This study is thus exploratory. This does not mean that it is confined to qualitative analysis. Empirical quantitative data can still be gathered and analyzed, but still used in an inductive rather than deductive manner.

5.2 Philosophical foundations

As a social phenomenon, the study of entrepreneurship gets into the continuing controversy over the usage of qualitative or quantitative approaches. These are the positivist and anti-positivist approaches. Positivism is an epistemological position that prefers to study the social world using the principles, procedures and ethos of natural sciences (Kolakowski, 1993). Bryman and Bell (2003) argue that this doctrine advocates the application of the methods of natural science to study social reality and is based on the following principles: the principle that only phenomen and hence knowledge that is confirmed by the senses is knowledge; the principle that the purpose of theory is to generate hypothesis that can be tested and will allow generation of explanations; the principle of deduction; the principle that knowledge is arrived at through gathering facts that provide a basis for laws inductivism; and that science is value free, thus objective

.

Positivism is thus based on the assumption that the social world exists externally (or objectively) and can be explained through careful measurement and scientific analysis (Bryman and Bell, 2003). It assumes that it is not the role of science to determine mechanisms behind observable relationship as there may be no logical connections in nature. It limits its conception of valid knowledge science, to what is observable. Positivism maintains that while studying social science concepts which are behavioural in nature, studies should adopt the same methods as those used in natural science (Von Wright, 1993). The positivist approach thus attempts to arrive at a set of generalized statements or laws to explain and predict the relationship between events in the social world.

The humanist approach, also referred to as interpretavist or phenomenological approach, is the anti-positivist philosophy of science. This approach is more diversified and more heterogeneous than positivism. The approach argues that reality is socially constructed and given meaning by people through interpretation.

Deductive and inductive research

Deductive research methods are associated with the positivist approach. They involve developing a conceptual and theoretical structure prior to testing through empirical observation (Gill and Johnson, 1991). On the basis of what is known about a particular phenomenon and the theoretical considerations of that phenomenon, hypotheses are deduced which must be verified empirically (Bryman and Bell, 2003). The deductive process thus follows a number of stages. It starts off by identifying the concepts that are believed to be important to warrant investigation. There must be a strong theoretical foundation. Two or more concepts are then linked to form a basis for testing. However, since these concepts are usually abstract, they have to be operationalized by creating indicators and measures by which the concepts can be empirically observed. Testing the relationship enables us to explain the phenomena associated with the theory.

Inductive research is the obverse of deduction and is also associated with the positivist paradigm. While in deduction, observations leads to testing of theory, in inductive research, theory is the outcome of observation. Inductive approaches are thus necessarily exploratory and complement deductive approaches by generating new theories and insights to test through deductive methods. This positivist approach to induction differs markedly from using qualitative approaches in the interpretavist paradigm. In this latter paradigm the necessary externalisation and objectivity of variables and measures required in the positivist paradigm are deemed to be unattainable. Understanding rather than proof is the end result of the research process.

Selection of a methodology depends on what one is trying to find out (Silverman, 2001). Quantitative methods are more acceptable and tend to produce more precise results since they appear scientific. However, they at times fail to understand meanings that social life brings to information. Quantitative studies rely mostly on data that are collected by asking people (Fielding and Fielding, 1986). Reliance on purely quantitative methods may thus neglect the social cultural variables in a study. Entrepreneurship being a social phenomenon that is yet to be empirically verified, a qualitative approach was preferred. Smith (1983) captures the differences in the two approaches, quantitative and qualitative, when he states that in quantitative research, facts act to constrain our beliefs while in qualitative research, beliefs determine what should count as facts. The study thus adopts a naturalistic approach that combines unstructured interviews and observations to collect data in a natural environment. Denzin and Lincoln (1998) argue that qualitative research is multi method in focus involving a naturalistic approach to what is being studied. They argue that qualitative research study things in their natural setting thus enabling interpretation of issues in terms of the meanings people bring to them.

This research studies the concept of entrepreneurship and economic growth. Entrepreneurship is largely concerned with the individual and individual behaviour. To investigate underlying motives for an entrepreneur's behaviour, use of unstructured in-depth interviews is crucial. A naturalistic approach yields good results. Growth on the other hand is something that can be measured quantitatively. Because of this, purely qualitative value free assumptions would not be sufficient to isolate the values under study. Value free studies are ideal only in natural sciences where the phenomenon is objective. For this reason, the study is exploratory. Exploratory studies have flexible designs that enable the researcher to consider the different aspects of a problem. They also facilitate accurate description of a problem or an association between variables.

Qualitative analysis has been invariably criticized. In writing text, Silverman (2001) argues that words are too ephemeral and insubstantial to be subject to scientific analysis and that textual analysis should be left to literary critics! He argues that social scientists should concentrate on definite social phenomena like actions and the structures in which they are implicated. In fact, text is sometimes said to be background to real analysis. Nonetheless, it was the most appropriate methodology for this kind of study. This is because we have no knowledge of this relationship and no theory has been suggested. To be able to create the theory this approach is ideal.

Content analysis is an accepted method of textual investigation. A set of categories are established and then one counts the number of instances that fall into each category. However, it is criticized that because it is based upon a given set of categories, it furnishes a powerful conceptual grid from which it is difficult to escape (Atkinson, 1992). The grid is powerful in organizing data but deflects attention away from uncategorized activities (Silverman, 2001).

5.3 Research design

The research design provides a framework for the collection and analysis of data. Bryman and Bell (2003) lists five types; experimental, cross-sectional or social survey, longitudinal, case study and comparative designs. Gill and Johnson (1991) add action research and ethonography to the above as research design. The research method is the technique of collecting data and these are discussed ahead. The study had decided on adopting both qualitative and quantitative approaches. This was because of the nature of the research questions where entrepreneurship is a social phenomenon that suits qualitative analysis while economic growth is highly quantitative.

Economists, from the classical theorists who have attempted to explain what growth is have until recently not studied this relationship. The various models/ theories that have been proposed have not included entrepreneurship. This has therefore resulted in no theory in the relationship. This means that the study could not be deductive in the attempt to establish whether a relationship between the two variables exists. On the other hand, some theories exist to explain determinants of growth. Solow’s and Romer’s models are some of the theories in use. But as discussed in the literature in Chapter 2, the theories do not explain economic policy and the role of government. They do not even mention entrepreneurship. This also makes the testing of the theory in this study rather difficult and again calls for an inductive approach to the study which would result into theory building. Since no theory existed, data was collected on both concepts. Economic growth data exist in published statistics and economic growth is a macro phenomenon. The question was what data to collect on entrepreneurship, a micro phenomenon in the whole economy.

For the qualitative aspect, the case study lent itself well as a research design to achieve the inductive approach of what the study intended to achieve. Cases study research is ordinarily concerned with complexity of a particular nature of the case in question. Examining portfolio entrepreneurship in an economy is a phenomenonal task because you will be examining every business person with more than one business. They have therefore to be distinguished by size. They study was about existing large firms, so the small scale firms were eliminated.

The study found that the large scale entrepreneurs in the country were few. Only 30 were identified who met the largescale operators and this naturally led to the decision to adopt a case study approach. Case studies focus on an organization, a person, a location or an event. The purpose is to focus intensely on that person or event. The case study design tends to favor qualitative methods of data collection and structured and unstructured interviews and participants' observation are particularly helpful in examining a case in detail.

However, to avoid the problems normally associated, qualitative techniques may be combined with quantitave ones. In a study of quality management in a UK retail bank, Knights and McCabe (1997) combined qualitative techniques with quantitative methods. They added documentary data collection of company reports, Total Quality Management guides and Newsletters to the semi-structured question interviews and observations. In this study while interviews were very important in collecting the data, the study also adopted the quantitative methods. Data was collected from company reports, Newsletters and third party reports. These included reports from the Uganda Manufacturers Association, Uganda Bureau of Statistics, Bank of Uganda, Uganda Investment Authority and Uganda Revenue Authority among others.

The validity issues in the case study

All research work has issues of validity and reliability. Unlike quantitative studies, qualitative issues have more serious validity issues. Validity is the integrity of the conclusions that are generated from research. External validity is an issue of whether results of a study can be generalized beyond a specific research context. Can a single case study be used to represent a class of objects? The sampling frame and sampling methods are important. If the samples are not representative, the results of the study may not be representative. Many quantitative researchers do not think that case study findings can be generalized Bryman and Bell (2003). In this particular study, some research findings exist on portfolio entrepreneurs and on economic growth through limited in nature. The results of this study may therefore be generalized beyond this case study.

To be able to collect the data, understanding of who an entrepreneur is, what he does and the different types was important. As a social phenomenon, measuring it had to be ascertained.

A case study approach was selected for the study of portfolio entrepreneurs so as to provide a clear and under methodological understanding of the entrepreneur. Because we did not know anything about the relationship between entrepreneurship and economic growth, qualitative techniques were more appropriate (Despharde, 1983). This enabled us to discover issues or phenomena that did not appear in the literature. Miles and Huberman (1984) suggest several strengths of qualitative data. These include;

a) That there is a local groundedness i.e. data are contextually embedded and this provides opportunity to discover issues that do not look obvious which may underlie behaviour or occurrence of events.
b) Qualitative data are rich and holistic and more complete.

5.4 Research questions

The study primarily focused on the question whether a relationship existed between entrepreneurship and economic growth. To be able to address this gap, three major questions were formulated each with subset of questions.

a) What are the macro economic conditions that existed in Uganda over the period 1962 to 2005, the types of opportunities, the growth patterns, and the role of the entrepreneur in the growth process? More specifically:

   i) What are the growth trends in the growth in the Ugandan economy since independence in 1962 to 2005?

   ii) What were the macro economic policies that were in place?

   iii) What has been the relationship between macro economic policy, political factors, and growth?

   iv) What is the behaviour of entrepreneurs during the different periods of trends in the economy?

   v) What opportunities emerge in different periods that contribute to growth and how do entrepreneurs react and align to them?

b) What types of entrepreneur emerge in the economy to exploit the opportunities that emerge and what is their contribution to economic growth? More specifically:

   i) What kind of entrepreneurs react to the different opportunities that emerge?

   ii) What has been the role of large scale portfolio entrepreneurs in the Ugandan economy?

   iii) What are the characteristics of the successful large scale portfolio entrepreneurs and what do we learn from this?

   iv) How do these entrepreneurs use the knowledge and experience they gather in managing their businesses? Is there anything unique about them?

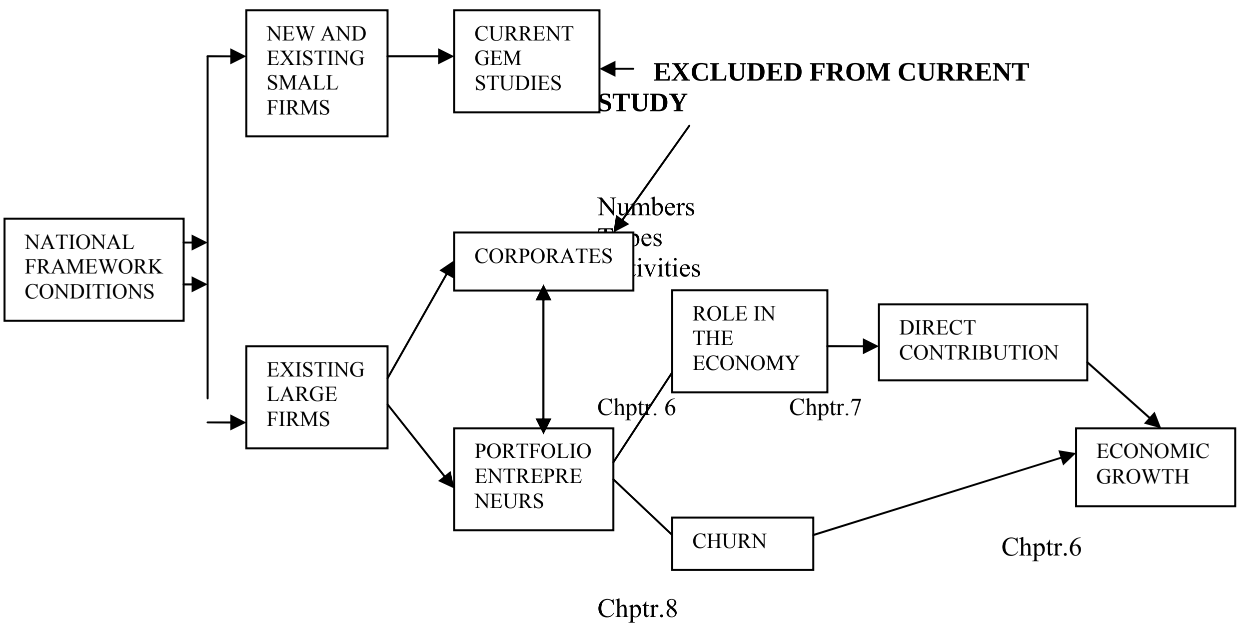
c) What industries emerged in the economy and what is the role of firm birth and death, the churn, to economic growth in Uganda?

   i) What industries emerged or were rejuvenated in the economy as a result of liberalization?

   ii) How does the business churn contribute to the creation and growth of new industries in the Ugandan economy?

   iii) How does the churn contribute to economic growth?

5.5 The conceptual framework



Thesis Framework: Adapted from the GEM Model

As explained in Chapter One and Two, the study’s theoretical foundation is the GEM Model. GEM has economic growth as the dependent variable and the National framework conditions and Entrepreneurial framework conditions as the independent variable (Figure 2.2). GEM has large firms and micro small and medium sized firms in the model but so far they have studied only the latter. Even the churn has not been examined. Drawing from this model, the studies conceptual framework was designed. The study focused on existing large firms which include corporate and businesses of large scale portfolio entrepreneurs. The corporate who were outside portfolio business were not studied except as far as it went to explain the churn. This model enabled us to study the large scale portfolio entrepreneurs and understand their role in the economy and also how the churn works.

5.6 Study population and sampling frame

As a national study that attempted to establish a relationship between entrepreneurship and economic growth, it was quite difficult to establish the scope of the study and how to narrow it down to a manageable size. An attempt was made to get a sampling frame from the registrar of business and associations that bring businesses together and realized that many small to medium sized businesses were not registered. From the literature, we had identified that large-scale portfolio entrepreneurs owned multiple businesses. In the developed world, large-scale portfolio entrepreneurs would be listed among companies listed by Fortune 500, the Forbes Rich List, and the Sunday Times Rich List, among other listings. Such companies may also be listed at the stock exchange. In Uganda there are no such lists. The Uganda Stock Exchange has only 5 listed companies. To identify the possible respondents, it was decided to examine both the local newspapers and published national statistics to identify areas where growth may have been taking place and who was behind this growth. Newspapers over a 1½ year period, 2001 – 2003 were examined. A content analysis revealed the following:

a) There were companies that regularly appeared in the news papers. Some paid for adverts, others were in the news because they had done something positive or negative. Some were there because they had changed hands. From the entrepreneurship literature, we were able to conclude that these were organizations where entrepreneurship was thriving. These were largely big corporations or those owned by prominent business individuals.

b) There were business individuals who appeared in the print media regularly either negatively or positively. They did so for a number of reasons. It could have been acquisition of another company, establishment of another company, donation of funds to a cause. Other reasons were that one of their companies or themselves being in trouble with tax authorities, consumers or related matters because they were associated with numerous events. These were identified mainly as habitual entrepreneurs. They had relatively large businesses.

c) There were sectors that were frequently reported on or discussed in the press. These were those sectors which were either doing well or were doing badly. These included sectors like banking where there were several bank failures and takeovers or sales, sectors like telecommunications that were introducing new technologies and growing very fast, sectors like fm radio stations which were completely new and growing quickly and sectors like coffee which were experiencing problems. Interestingly, these sectors were related to (a) and (b) above, though there were also small players in the sector.

In the published national statistics it was observed that there was generally growth in the economy over the years and that growth was mainly in industry and services but in agriculture, spatial growth patterns were observed. A selected group of products were given prominence in the national statistics. These included soft drinks, beer, sugar, steel products, soap, and cooking oil manufacturing besides oil and petroleum products. Again the players in (a) and (b) above were found to be among those mentioned.

An examination was made of specialized business magazines and finally settled on *"The Manufacturer"* which is a publication of the Uganda Manufacturers Association (UMA). UMA is one of the most powerful associations of business people/groups in the country and organizes the biggest annual international trade fair in the country. It also has a permanent show ground and its membership consists of most of the organizations that matter in the *"who is who"* of Uganda's business. It is a pressure group that participates in the national budgetary and planning processes. The Manufacturer is published monthly and has a special edition during the October Annual International Trade Fair. It was analyzed over a 10-year (1993 – 2003) period and found the following:

a) There were some companies that advertised in the publication consistently and these were mainly companies associated with groups of companies.

b) There were individuals who had a number of companies and had been in business for a long time and appeared in the publications over time. Most of these individuals were members of the UMA Executive Committee.

c) A number of companies established in recent years had come to prominence and were advertising aggressively taking out large space.

d) Some sectors appeared both in adverts and reports in the publication.

e) The names of individuals and organizations appearing frequently in both the local newspapers and UMA publications were similar.

From the analysis, it was evident that:

i) There were some sectors that were growing more quickly these included telecommunications, broadcasting, forex bureau, banking, insurance, among others.

ii) That there were some companies that were performing well and these included some companies that had been around for some time and those established in recent years. They were mainly in those high growth areas. These included companies like Kakira Sugar Works, Banks, Mukwano Industries, MTN, Celtel, Coca-Cola, among others.

iii) There were individuals who owned successful companies some of who had been around over years and some were recent upstarts. These included individuals like Wavamunno, Mulwana, Karim Hirji, Sudhir Ruperelia, Mukwano, among others.

Reports of surveys conducted by PriceWaterHouse Coopers on the ***Most Respected Companies*** and ***Most Respected Business Individuals*** were studied. This survey is conducted annually in East Africa, (Uganda, Kenya and Tanzania) and awards are made to these organizations and individuals. This would be close to the involuntary publication in the Fortune 500 or Forbes Magazines. The names of prominent Ugandan companies and individuals in this survey were closely identical with those appearing in both the newspapers and the UMA publications. We also looked at the registrar of large tax payers from Uganda Revenue Authority. This had similar results, these same names appeared in all the publications and lists.

It is from this information that the study population was identified. The following were studied:

i) Selected sectors in the economy that showed growth either in start-up or volume of production or sales. Focus was on fm radios, forex bureaus, banks, telecommunications, insurance, education, cutflower business, and oil sector.

ii) Corporations that were growing especially those that had either been in the economy for a long time or had shown high growth in recent years. Focus was on banks, telecommunication companies, insurance companies, oil companies, and professional organizations.

iii) Individuals or families who appeared prominent in the business community who had either been around in the different periods of Uganda's socio-political and economic history. Wavamunno, Mulwana, Mukwano, Madhvani were selected among others.

This led to the selection of UMA membership list and the list of the Uganda Small Scale Industries Association (USSIA) as sampling frames and it also led to a selection of a combination of research approaches including survey in the sectors, and case studies for individuals.

5.7 The sample and sample selection

5.7.1 The sample

Having adopted the GEM model, the population to be studied was identified as existing large firms, though for purposes of understanding the sectors that were growing small firms had to be studied too. Theoretical sampling used initially to identify the sample as explained in the process of selection of the sampling frame. This process enables us to zero in on the portfolio entrepreneurs for the existing large scale entrepreneurs and the corporation. The following was arrived at.

i) A sample of 30 large scale portfolio entrepreneurs.

ii) A sample of 300 small and medium sized business units taken from different sectors among UMA members and those of the USSIA.

iii) A sample of 200 large corporations taken for the UMA membership list.

a). **Selection of portfolio entrepreneurs**

Sampling frame

- UMA Publications
- Survey of Most Respected Chief Executive Officers
- Survey of Newspaper for most frequent companies in names over 15 months between January 2001 – March 2002
- The names of those that appeared frequently in the publications.

Targeted Sample 30 Persons: *Distributed as*

	District	***Numbers***
1	Kampala	20
2	Jinja	5
3	Mbarara	3
4	Mbale	2

b) **Selection of 300 small and medium sized organizations**

Sampling frame

- UMA membership list
- USSIA membership list

Distributed as:

Kampala	-	180
Jinja	-	70
Mbarara	-	30
Mbale	-	20

Divided by sector and then taking a random sample within the sector.

c). **200 large corporations**

- UMA Membership list
- Survey of most respected companies
- Survey of newspapers – companies most reported in articles
    - 110 Kampala
    - 40 Jinja
    - 30 Mbarara
    - 20 Mbale

The UMA list was divided by sector and the samples selected randomly. When compared to those companies appearing in the surveys of most respected companies by PriceWaterHouse Coopers and newspapers most of these companies appeared in the sample.

5.7.2 Sample selection

a) **Portfolio entrepreneurs**

The survey of newspapers and analysis of the UMA publications revealed a list of 45 companies that frequently advertised or were mentioned in important business articles, 30 could be traced to individuals. The other 15 were multinational corporations. Given such a small number of groups that had large size multiple businesses identifiable with individuals, we decided to study the whole group of 30.

b) **Small and medium sized organizations**

The UMA and USSIA membership lists are divided by sector. Purposive sampling was used to select groups from which to take the same. Thereafter the companies were selected at random. Six companies were taken from each of the fifteen sectors in UMA and within groups/sectors ten companies from the USSIA list for each sector giving a total of three hundred companies. However, we did not take those companies known to be multinationals or owned by portfolios above.

c) **Large corporations**

Taking the UMA membership list, it was purposively divided into sectors and in each sector ten companies were selected. Where a sector had a small number of players, e.g. banks, insurance companies and all the companies were studied.

5.8 Data collection methods

The theoretical sampling technique was adopted to collect the initial data. Glasser and Strauss (1967) who developed grounded theory argue that theoretical sampling is appropriate for qualitative research because it enables refinement of ideas and enables you to decide what data to collect as patterns in the data emerge. Since there was no well established relationship in the study concepts, theoretical sampling was an ideal tool.

In the initial stages, the study examined all entrepreneurs without categorizing them. The collection of data and review of the literature revealed the portfolio entrepreneurs. The portfolio entrepreneur is visible in the economy because of a presence in several business areas. Focus was therefore on largescale portfolio entrepreneurs as a unit of analysis.

Using the GEM model, the existing largescale firms had been identified as the population of study. Theoretical sampling above revealed the large scale portfolio entrepreneur. The small firms had also been included primarily to study those that appeared in the sectors that were growing. Since there was no firm theory for the study to draw hypothesis from, the inductive approach had been decided upon. This involved collection of both qualitative data and quantitative data. For data about the economic trends, this was available in published sources. For the individual portfolio entrepreneurs a case study approach had been decided as the source of primary data.

In deciding on the case study as a method, regard was made to the fact that to be able to understand the phenomenon under study, we have to reduce the distance between us and the respondent. If this is not done, the study becomes impersonal and it becomes difficult to source the correct information that you may want.

Unstructured interviews along with some questionnaires were decided upon as the methods to collect the data. For the small and medium entrepreneurs and the corporations, the technique of collecting primary data was decided to be questionnaires.

5.8.1 Primary data from portfolio entrepreneurs

The process of collection of primary data involved designing the instruments. For the case studies, a interview guide was designed. A questionnaire was also designed hoping that the respondents may fill them to re-enforce the interview data.

a) The interview guide and questionnaire

Collection of primary data in case studies is basically achieved with the use of interviews. An interview guide was designed using a questionnaire by Hisrich (1985).

The **interview guide** in Appendix 3 covered the following areas:

Bio Data

Family

Educational background

First business started

Subsequent businesses

Motivation for starting businesses both first and subsequent ones

Sources of funds

Role of family and succession plans

Major products/services

Production and sales figures

Key successes

Contributions to the economy

Challenges

The **questionnaire** covered similar information, though some of the questions were detailed on risk, independence, initiation, need achievement, creativeness and leadership.

b) **Pilot interviews**

Several portfolio entrepreneurs were approached and informed about the study. They agreed to meet with the researcher. Three portfolio entrepreneurs were interviewed in a pilot. It was established that the respondents were very busy people and could not fill questionnaires. It was decided that unstructured interviews would be conducted with the key portfolio entrepreneurs. It was also found that it was necessary to get informers in the organizations to verify the information from the portfolio entrepreneurs. A questionnaire to get information about the characteristics and motivation of the portfolio entreoreneurs was also designed.

c) **Actual interviews**

Appointments were made with the different portfolio entrepreneurs and there were difficulties on agreeing on dates and time. During the actual interviews, the principal researcher had two research assistants who helped in recording the data. Most interviews were held in relaxed atmospheres and took between one to three hours. It took over a year to do the 26 interviews

The personal oral in-depth interviews, involving face-to-face contact were useful as they revealed a lot about the individual. They were able to elicit underlying feelings and motivations of the people under study.

Follow up interviews were held with some of the aides or individuals who worked closely with the portfolio entrepreneurs.

5.8.2 Primary data from small and medium sized enterprises

For the small and medium sized organizations, a survey was to be conducted. The questionnaire therefore had to be self-administered, simple and easy to complete because of the large number of expected respondents.

The questionnaire

Several issues emerged when designing the questionnaire. For the small and medium size firms, the question os literacy was considered. A large number of many successful entrepreneurs are not very educated. The other consideration was time and the amount of information especially performance data that would be volunteered. The contents of the questionnaire were similar to that of the portfolio though in case emphasis was on motivation for start-up independence, risk taking and need achievement.

Piloting the questionnaire

The questionnaire was piloted. A sample size of 300 had been arrived at and decided to do a pilot of 30 organizations. Only 19 individuals filled the questionnaire. It was found that the questionnaire was too long and if possible information could be collected though an oral interview. An interview guide was also designed. Not many changes were made after piloting.

Actual interviews

An attempt was made to secure interviews on the phone for those organizations where the phone numbers were shown but this was not successful. Letters were written to the 300 organizations and were delivered. Research assistants were used to deliver some of the letters. Out of the 300 target organizations, only 271 organizations could be traced physically. The researcher was able to talk to a total of 68 entrepreneurs and the rest were approached by assistants. The presence of the researcher facilitated the filling of the questionnaire.

There were numerous difficulties in this exercise. Most of the respondents wanted to see the researcher in person. Many did not have time to fill questionnaires. Others had a language problem. Many respondents did not want the researcher to know that they had a problem with the questionnaire and some of the issues appeared confusing to them. Many respondents suspected that government was trying to collect information from them to tax them. They were also remarks like what was the benefit to the respondents from the researcher. Indeed some of them wanted to be paid for the interviews. Some respondents complained of spending too nuch with different university students who now and again approached them for information. Nonetheless information was received from 212 individuals after 18 months of administering the questionnaire.

5.8.3 Primary data from corporate entrepreneurs

Through purposive sampling, the corporate were divided into different categories including professionals like accountants, engineers, architects, among others; banks; telecommunication companies; insurance companies; beverages companies as they are sub-grouped in the Uganda Manufacturers Association's registration list. From these sub-groups 60% of the members were targeted.

A questionnaire by Covin and Solvein was adopted and piloted on 15 organizations including banks, auditing firms, insurance companies, beverage makers and lawyers. It was found that the questionnaire was not appropriate for professional firms because of the nature of their activities. Changes were made to suit the firms and it was administered. The questionnaire targeted the chief executives and the different functional managers in the organizations. Out of the 200 organizations targeted, questionnaires were delivered to only 120 organizations and data was received from only 40 organizations. Only 18 organizations had useable data. The respondents would indicate they would return the questionnaire but never had time to do so. After 2 years of following up the questionnaire, this effort was shelved since the focus was mainly on portfolio entrepreneurs.

5.8.4 Secondary data

While entrepreneurship is a social phenomenon that can be studied as a micro unit, economic growth is an economic phenomenon and is studied as a macro concept which is highly quantitative. As earlier stated, linking the two is not easy. To be able to study the impact of entrepreneurs in the economy, the production figures of entrepreneurial firms had to be obtained. However, it was difficult to get the statistics on the individual companies of the entrepreneurs being studied. Fortunately while the production and sales figures were important indicators, they were not the only indicators. Other measures of entrepreneurial activity like start-up, employment, tax contribution among others, were identified. Because the information could not be obtained directly, it was got from secondary sources.

Economic growth data are collected by numerous institutions and are available. Data on national economic growth were available from various publications both nationally and internationally. Data were obtained from World Bank and IMF publications, Africa Development Bank publications as international sources. Nationally, data were obtained from the Uganda Bureau of Statistics (UBOS) which is the Uganda government official compiler of statistics. Data were also obtained from the Central Bank, Bank of Uganda (BOU) and the Ministry of Finance, Planning and Economic Development, who collect data in a complementary manner with both the UBOS and BOU. Key government agencies like the Uganda Revenue Authority, Uganda Investment Authority and the National Agricultural Research Organization also compile data and they were valuable sources. Other sources included annual reports of different organizations, websites of companies and associations like UMA, Uganda Small Scale Industries Association, Uganda Insurance Commission, Uganda Communications Commission, the Media Council, which are either regulatory agencies or associations that bring together different business units for common interests. For some of the companies surveyed, their websites were sources of secondary data too.

5.9 Operationalizing the study concepts

The GEM studies had looked at only nascent and existing small firms. GEM had already assigned start-up as an indicator of growth. The entrepreneurship literature has concepts of study but these concepts have not been used to measure economic growth. The common concepts in studying or understudying entrepreneurship include risk taking, independence, achievement need, among others. But the concepts to relate entrepreneurship to economic growth are not known. The study finally was able to get the following.

5.9.1 Measuring entrepreneurship in relation to economic growth

From the literature and interviews with entrepreneurs, the following were unpacked as concepts as entrepreneurial activities that could be measures of economic growth.

a) **The number of start-ups:** Arenious and Autio (1999) argued that start-ups serve as proxies to measure entrepreneurial activity. Start-up means a new start-up, an acquisition through purchase or merger or consolidation and transfer of ownership from one person to another. A start-up is a new creation and easily adds to growth figures.

b) **Jobs created:** This act of start-ups is itself a job creation act. A person who seeks to be self-employed, is reducing unemployment numbers. On the other hand, some start-ups create jobs in addition to that of the one starting up. This is a measure of entrepreneurship.

c) **Innovation:** This is bringing up a new product, service or process or usage of a new raw material. It includes start-up, an industry through a new technology, opening or closing a division or branch or entering or leaving a market or product line or product.

d) **Production of goods and services:** Perception of opportunity leads to mobilizing resources and combining them to cause activity. This may be the production of goods and services. The commencement of this or increase in production is a reflection of entrepreneurial activity.

e) **Wealth accumulation:** Entrepreneurs produce goods and services and sell them. This process results into making profit. Through profits entrepreneurs are able to accumulate wealth. Wealth is the capital stock of an individual or an organization. This facilitates investment in the future.

f) **Tax payments:** It is not common to use tax contribution of businesses as a measure of economic growth. However, in the laboratory case of Uganda, it was easy to see the impact of portfolio entrepreneurs on the tax coffers. From 1986, tax as a percentage of GDP was below ten percent and it has grown tremendously. Examining the large tax payer's register, the names of large scale portfolio entrepreneurs were visible as they were listed along with oil companies and banks.

g) **Multiplier effect:** There have been a tendency to attribute new jobs to small firms but not much has been studied where these jobs come from. Large scale portfolio entrepreneur activities contribute many small business jobs through their multiplier effect. This one evidentin the cases studied.

h) **Infrastructure development:** In developed countries, infrastructure is taken for granted. In developing countries, many organizations especially large private sector organizations contribute by developing infrastructure that is used by others.

These were used as measures of entrepreneurial activities and proxies for economic growth and development.

5.9.2 Measuring economic growth

Economic growth has been defined as an increase in the levels of production of a country. It is contrasted with economic development which is transformation of people's living standards. Growth thus focuses only on production and generation of wealth, not its distribution.

Growth is therefore measured by:

a) **Changes in GDP**. GDP is an aggregate of goods and services produced in a country. Increase in production of different products and services is a reflection of economic growth. Even introduction of new goods and services amidst declining production in others is a growth indicator.

b) **Per capita GDP**. This is income per individual head of the population. Increase in incomes of the population is a result of increase in production activity in a country. This is not a good measure because if the population is growing very quickly, like in many African countries, per capita growth in GDP may be negative.

c) **Capital investments.** Investments made in the economy are increases in capital stocks and are intended to create additional production of goods and services.

d) **Jobs created**. New jobs are a sign of increased economic activity and are a sign of growth. The paradox however lies in the fact that job los**ses are also a sign** of growth. Jobs are created through new start-ups that lead to self employment or employment of other people in a business. New jobs may also come from expansions, entry into new markets and opening of new branches or divisions.

5.10 Justification for the methodology

Up to the 1960s empirical research in the social science was dominated by quantitative methods. Interest in qualitative research started developing at that time. Since then, there has been and continues to be a debate between qualitative and quantitative approaches (Punch 2001) Some researchers on both sides have been firm on insisting on only one method. In recent years however, a form of détente (Punch 2001) has emerged where a combination of both approaches are accepted (Bryman 1988, 1992; Hammersley, 1992). This has signified an end to the paradigm wars. When considering the purpose of research, you need to answer these questions whether you will describe or explain or both.

The study was an inductive one, to build on data of how far the entrepreneur could explain economic growth. It sought to build explanatory theory about data. This study sought to explain the cause of growth in the Uganda economy but focused on the role of the entrepreneur. Explanatory research is also a scientific method. The aim of a scientific inquiry is to build explanatory theory about data.

Explanation is why, why or how is the case. Explanation is to account for what happened or how things are proceeding or for what something or someone is like. Description is part of explanation. Description is the first step in explanation. It is more restricted or narrow. A study with explanation as its objective can set out to test or to build a theory, to verify a theory, and also now and again to generate it. In theory-first studies, they start with theory, deduce hypothesis from it and design a study to test the hypothesis. This is theory verification. In the theory-after, they do not start with a theory, instead they end up with one theory from the data that has collected. Quantitative research is usually directed at theory verification while qualitative research is directed at theory generation.

There has been no firm relationship established between entrepreneurship and economic growth. The economics literature largely ignores entrepreneurship though admittedly there are economists like Kirzner, and Schumpeter who dealt with the relationship in the earlier studies and publications. The researchers in entrepreneurship including leading researcher like Reynolds in the massive global study GEM also question whether there is a relationship.

This doubt creates a justification for choosing the qualitative approach as the key study approach. Emphasis on verification of existing themes also acts as a hindrance to investigating new problem areas (Glaser and Strauss, 1967)). There is need for developing a theory in the relationship between economic growth and entrepreneurship. It is this need that gave rise to the methodology and methods used in the study.

5.11 Data analysis

One of the problems with qualitative data is that it has no widely accepted rules. However, broad guidelines exist that aid the analysis (Oakley, 1994; Bryman and Burgess, 1994). Qualitative data rely alot on prose in form of field notes, interviews, transcripts and documents. Miles (1979) calls it an "attractive nuisance" because of the attractiveness of its richness accompanied with the difficulty of analyzing it meaningfully.

Being exploratory and qualitative, it was known from the beginning that no known theory and therefore had to select analysis techniques that were appropriate. In such exploratory studies, data analysis can start with data collection (Straus and Corbin, 1998). Theory is developed out of data in an interactive manner. Collection and analysis of data proceeded in tandem (Bryman and Bell, 2003).

The study thus started with collection of data on both concepts of entrepreneurship and economic growth. Economic growth data is available from published statistics. The difficult data to collect was on entrepreneurship. Entrepreneurial activity was sought from newspapers, magazines published statistics and interviews with entrepreneurs. The theoretical sampling technique was used initially to collect and analyze the data. Various concepts started developing and these included the portfolio entrepreneur, business start-up, job creation, innovation, production of goods and services, tax contribution, multiplier effect, infrastructure development, and creation of wealth. As the interviews were concluded, new concepts would emerge.

The data that was being collected was analyzed using content analysis so as to get a common factor by which to measure entrepreneurial activity. Respondents were at times not willing to give all the information we required to be able to interpret the findings. More data was collected from the secondary sources to augment the findings.

5.12 Limitations of the study

As an exploratory study that related a macro concept of economic growth to a micro one, entrepreneurship, the scope of the work was a major challenge. It was not until the study focused on portfolio entrepreneurs that the limitations of the study were further narrowed down. This first challenge was thus the magnitude of the work to be undertaken which appeared a lot. It was found difficult and expensive to study entrepreneurship and relate it to growth without breaking down the different types of entrepreneurs. When narrowed down, the limitations also became more focused. The following were experienced:

a) **Securing interviews with the portfolio entrepreneurs.** This was not easy though finally interviews with 26 of the large scale portfolio entrepreneurs were conducted. They were always busy and during actual interviews, they would excuse themselves to attend to business. They did not want to be recorded. Research Assistants were used to record the interviews. All were interviewed at least twice and a few three to four times.

b) **Exchange rate and currency problems**. As a small country that has gone through different economic difficulties the country has problems with the value of the currency. Like many other developing and indeed developed countries, the country must convert its national statistics into dollars for international reporting and comparison. This poses a challenge when the country's currency is either depreciating or appreciating. Depending on the direction even comparison of figures in different years in dollar terms may present a confusing picture. There are also cases when inflation was very high especially in the 1970s and 1980s. Comparison of information between years may present a misleading picture.

Another related problem was a currency reform. In 1987 the exchange rate of the Uganda shilling to the dollar was UgShs.1400-US$1. A currency reform was undertaken cutting off two zeros to Shs.14 and then the currency was devalued to Shs.60 to US$1. Besides this government imposed a 30 percent tax on all cash balances in the banks. Therefore the data reported from 1987 to the early 1990s could not be compared to data in the year before meaningfully.

c) **There was a reluctance to indicate performance especially the sales/production figures.** Most of this information was obtained from published data and due to the difficulty in getting the data directly from the interviews, the information could not be used in the case studies used in the report. Fortunately, other measures of entrepreneurial activity were found that were used as proxies for measuring economic growth.

d) **Reluctance to reveal wealth.** Portfolio entrepreneurs were generally reluctant to talk about their individual wealth or that of their family. Even data on the group wealth was not volunteered.

e) **The administering of questionnaires to the small and medium enterprises was a problem.** Many owners/managers would request that the questionnaire be left behind and getting them back was a problem. In some cases, new questionnaires would be delivered because the first one was misplaced. This information revealed a lot about the entrepreneurial quality of the businesses and persons survey but was not easy to get information on sales/production or employees. For this reason, it was not possible to relate portfolio entrepreneurship production figures to growth and left out the data.

f) **Administering questionnaires to corporations in search of corporate entrepreneurship was also a big challenge.** Out of about 20 questionnaires, you would get back two in one organization which invalidates the unit survey.

g) **As a part-**time student with administrative and teaching obligations, time was a major constraint. The study was undertaken during a major change in the organization, the researcher works for and this led to various delays

h) **Research fatigue**. As a small country most of the respondents in the study were the same respondents all other researchers go to and there is a reluctance to avail information, even to be interviewed. This means, all the information that may have been required may not have been freely available.

CHAPTER SIX

ECONOMIC GROWTH TRENDS IN UGANDA

6.1 Introduction

6.1.1 About the chapter

This Chapter examines the growth patterns in Uganda over time. Macro economic statistics was collected that shows the economic growth trends and the economic policy in place at the different time was examined to assess the relationship between the policy and economic growth. The Chapter also presents the different political environment relating it to the economic growth trends. In summary, this Chapter presents the National economic framework conditions in the GEM model based on secondary data. Primary data collected from the portfolio entrepreneurs is used in the different economic phases to understand the opportunities that existed and how the entrepreneurs reacted to them.

To assess the growth pattern, the major economic indicators are considered, mainly growth rate of GDP, per capita GDP, and index of industrial production among others. The growth in selected sectors is also examined and the role of entrepreneurship in the process identified. This provides the framework for gauging the contribution of the large entrepreneurial firms studied.

6.1.2 Global growth trends

In developed countries, people enjoy a high standard of living. This is characterized by high incomes and a variety of goods and services (see Section 2.3). The transition from developing to developed countries is usually a period of very high growth rates (Barro and Sala-Imartine, 1955). But after they have developed, the percentage change is small. Japan achieved growth rates of 8-10% per year in the 1970s and 1980s (Naya and McCleery, 1994). The newly industrialized countries of South Korea, Taiwan and Singapore also achieved over 10% growth rates before turning into developed countries. The percentage change in developed countries is now less than 2.5% per year. Solow (1956), in his model, had predicted that growth would decline once a country developed.

China and India are today among those developing countries with high growth rates of over eight percent per year and are developing very rapidly. Tracing entrepreneurial activity in the growth process in Uganda, interest was in the nature of entrepreneurs, the type of activity and the type of opportunities associated with economic growth or the lack of it.

The picture in other developing countries has been varied. Botswana and Mauritius have achieved rates high enough to emerge from poor to possibly middle income countries (Robinson and Tambunlertchai, 1993). Uganda has recorded an over five percent growth rate over an 18 year period. Other countries, however, such as Zimbabwe, the Congo, Sierra Leone and Somalia have stagnated or declined. Unfortunately while there has been that growth in Uganda, a large number of Ugandans still live below the poverty line (World Development Report, 2000/01).

6.1.3 Factors that drive growth

Economic growth as discussed in the literature is driven by different factors, macro economic policy and the right environment, according to classical and neo classical economists, and entrepreneurship, according to Schumpeter and other Austrian economists. (*see Chapter 2*) Good governance and social capital besides other factors have now been added (World Bank, 1997; Goldsmith, 1998; Temple, 2000).

It was the great economic depression in the 1930s followed by World War II that led to intervention of government in the growth process in the Western countries. Intervention was underpinned by Keynesian economics (Keynes, 1964). The communist countries, mostly in Eastern Europe, adopted Marxist growth models based on state intervention in the planning and production processes. As a result of this, many countries especially those that became independent from British Colonial rule adopted mixed economic philosophies. These put emphasis on both the role of the individual and government. Uganda, Kenya, and Zambia were such countries. Tanzania, in 1964 under Julius Nyerere, adopted socialism as the economic philosophy (Mamdani, 1996).

In Mexico at the beginning of the 1960s, there were about 150 state owned enterprises. By 1980, there were over 600. In Brazil, the number was similar to that of Mexico in 1960 and 700 by 1980 (Berg, 1987). India adopted a socialist pattern of society in 1954 (Bardhan, 1984) and public enterprises were adopted as the means of industrializing the country. At that time these public enterprises were believed to be the leading edge of modernization in these countries. However, the expected growth from the creation of public enterprises did not materialize. The performance of the public enterprises was disappointing (Berg, 1987; Kikeri *et al*, 1992; Clifford, 1993).

Public enterprises were established to create jobs and cause growth and development. For this reason, prices were fixed and development was centrally planned (Berg, 1987; Richardson and Ahmed, 1987; Clifford, 1993). The anticipated growth did not materialize and poverty continued to be prevalent. The job losses and relocation of industries from the UK and USA in the 1970s also led to a rethink of state intervention in these countries. Led by Margaret Thatcher in the UK and Ronald Reagan in the USA, the developed countries reformed their economies to re-introduce individualism. The failure of public enterprises and the inability to cause growth resulting from state intervention led to rethinking of the correctness of the intervention policies. Many countries including Uganda started reforming their economies and the IMF and World Bank made economic reform a condition of granting loans especially to developing countries that had earlier adopted state intervention. The results of these reforms have been very good with an average growth rate of about 5% per year for over 18 years. Spectacular performance has been recorded in some Asian, Latin American and a few African countries where these reforms were also undertaken (Kikeri *et al*, 1992; World Bank Report, 1995; 1996; 2000; 2006).

The factors behind the recent reform-induced growth have so far been identified to be many and varied (Havrylyshyn and Wolf, 1999; Collier, 1997; Kasekende and Atingi-Ego, 1996; World Bank, 1995; Sachs and Warner, 1995; Sachs, *et al*, 1998; Temple, 2000). These generally include less government and free markets besides aspects of human and social capital. Countries that have controlled inflation, liberalized markets and prices, and grown exports have been able to grow (Havrylyshyn and Wolf, 1999; Collier, 1997; Collier and Gunning, 1997; World Development Report, 2000/1; 2002/3). Foreign direct investment and effective implementation of IMF programmes have also been cited as growth determinants. IMF programme has been largely concerned with the introduction of free market economic policies. Export growth has been cited as a major cause of sustainable growth in many Asian countries (Roberts and Tybout, 1997). This is attributed to free market economic policies. Competitiveness of the organizations and indeed the countries themselves have been cited as a key success factors. In their report on competitiveness in Africa, Sachs *et al* (1998) reported that dynamic and stable economies with a history of sustained respectable economic growth attributed to openness of economies (free markets) were key drivers of competitiveness.

6.2 Economic growth trends in Uganda: Colonial period

Uganda was declared a British Protectorate in 1873 as the scramble for Africa by European countries came to a close (Uganda National Report, 1962). While Britain had industrialized at that time, Uganda was a subsistence economy. The British government introduced coffee and cotton in 1903 as part of the effort to monetize the economy (Mamdani, 1996). The country largely followed policies in Britain and after the World War II the government, in line with policies of the post-war government in Britain, decided to introduce public enterprises to spearhead development in Uganda. The Uganda Development Corporation (UDC), one of Uganda's key players in development in the 1950s and 1960s, was established in 1952. Government decided to create an infrastructure that was supposed to support development. The Uganda Railway had been laid in the 1920s and the Owen Falls dam was commissioned in 1954.

Throughout the period of the colonial government, entrepreneurship activity was largely in production of agricultural products and limited manufacturing. Unlike Kenya where white settlers were allowed to establish farms, in Uganda it was not the case. The colonial government introduced coffee and cotton and this was successfully grown on small farms unlike Kenya where it was on plantations (Uganda National Report, 1962). The World Bank in a review of the Uganda Economy prior to independence, noted that Africans were engaged in agricultural production and "backyard industries" (small-scale engineering activity) and that the Asian community was in trade and light manufacturing. The European community was largely in the financial sector. The East African Common Service Organization which had been set up in the 1940s oversaw the railways, post office and other services.

The UDC was charged with spearheading industrial development so industry was largely government owned. Government played the role of the entrepreneur. But besides government, there were several entrepreneurs that were emerging on the scene. Muljibhal Madhvani, an Indian who came to Uganda in the 1920s, was consolidating his industrial empire. Based in Kakira, Jinja, where the family still operates a business, Madhvani led the private sector growth. Madhvani had been in sugar manufacturing over the years and had established a plantation with over 20,000 acres of sugar cane and a factory. Besides this, he had developed interest in food processing industries and other consumer goods. The other emerging entrepreneur was Metha also a migrant from India. He was and the family continues to operate a sugar factory at Lugazi. A small number of the Asian community operated light industries. The economy was dominated by tea and coffee production and related economic activity. The economy grew steadily at a rate of over four percent per year in the 1950s as a result of these policies. The private sector was also growing at the same time.

> *"At that time the economy was stable and there were numerous opportunities everywhere though our family was mainly in sugar production. Our father was a visionary person who saw opportunities*

and loved the people he worked with. Before his death, he had my elder brother and I into the business and we worked with him closely to manage it. Opportunities existed in manufacturing in almost all areas of consumer products. Government had established the Uganda Development Corporation (UDC) which had expatriate Managers and it was funded by British Government Aid. The UDC was inviting the private sector to go into partnership with it to establish industries. We had several businesses with them as shareholders". Manubhai Madhvani, the eldest living son of the Muljibhai Madhvani, the founder of the Madhvani Group

6.3 Economic growth trends in Uganda: Post independence period 1962-1971

Since independence in 1962, Uganda has experienced varying degrees of economic performance as measured by various economic indicators. A number of factors including social, political, institutional and economic have been used to explain the economic performance of Uganda. The country is well endowed with human and natural resources, good soils and good weather. These made it conducive for agricultural production and the subsequent development of the manufacturing sector. Prior to 1962, the manufacturing sectors were relatively well developed under the circumstances and the infrastructure needed to sustain these sectors was relatively strong. Agricultural production continued to be largely in the hands of small scale farmers. Consequently, between 1963 and 1972, economic performance was very impressive with GDP growth averaging about five per cent per annum and with annual inflation not exceeding ten per cent (First and Second Five Year Development Plans, 1961/62 – 1966/67; 1968/69-1973/74).

6.3.1 **Period 1962 – 1966**

a) **Macro economic policy**

This is the immediate post independence period in which the First Five Year Development Plan (1961/62 – 1966/67) was evolved and implemented. The political situation was stable following independence from Britain. Economic policy favoured the growth of the private sector as recommended by the World Bank, though the public sector was also growing (Uganda National Report, 1962). The 1962 constitution that had been agreed on prior to independence allowed the existence of kingdoms and party politics, a quasi-federal structure. This served the purpose at that time and contributed to the stability in the country. Multiparty elections held prior to independence led to establishment of a government by the Uganda People's Congress, led by Milton Obote as Prime Minister and Kabaka Mutesa, King of Buganda, as the national President.

Macro economic policy closely followed recommendations by the World Bank Mission, which visited the country in 1961 (Uganda National Report, 1962). Economic policy prior to this report was as earlier indicated (see Section 6.2) based largely on economic policy in Britain which drew heavily on post-world war labour party policies.

This included expansion of the public sector through creation of public enterprises. This policy had resulted into the establishment of the Uganda Development Cooperation in 1952 as a government company to spearhead industrial development in the country.

The recommendations of the World Bank Mission published in 1961 involved moving away from the policy of expansion of the public sector and putting emphasis on supporting private initiative and free market forces. Uganda became independent from Britain in 1962 and the new government established a Planning Commission to plan the development of Uganda. The Commission, in drawing Uganda's First Fiveyear Development Plan 1962/63 – 1967/68 largely adopted the recommendations of the World Bank and based the first plan on those recommendations. Putting emphasis on the role of the private sector in the economy, the Commission is cited to have reported

> *"broadly accepted the recommendation in the report and have produced a development plan closely modeled on them"* (First Five Year Development Plan, 1961/62 – 1966/67, Forward to the Plan B, Pg.ii)

The strategy laid emphasis on increasing production, through the private sector while holding the line on expenditure on social services. Special emphasis was put on producing trained labour and encouraging the private sector. Prices were to be determined by market forces. The policies supported private sector investment and generally growth of entrepreneurship.

At the time of independence, the quality of the human resource was poor. The number of people in schools was very small. According to the First Five Year Development Plan, only 50 percent of the children of the relevant age were in primary schools. Secondary school courses were available to only one percent of the relevant age group while paradoxically there was excess capacity at Makerere University, the only University in the country at that time. This was due to inadequacy of the output of secondary schools (First Five Year Development Plan, 1961/62 – 1966/67). This impacted on the quality of the entrepreneurial and management skills in the country.

b) **Economic performance**

Government strategy was to increase production to ensure that there was skillful application of scarce capital resources to under utilized labour and land (First Five Year Development Plan, 1961/2-1966/7). Government recognized the shortages of managerial skills and the low level of education and the land tenure system and decided to concentrate effort on raising productivity of peasant farmers through improving agricultural systems. The economic conditions in this period were relatively stable and despite the labour constraints the economy performed well, GDP grew at an average of 4.8 percent per year during the period. Production of key products like copper and electricity, was increasing and exports too were growing (Table 6.1)

Table 6.1: **Uganda Performance Indicators 1962 - 1966**

	1962	1963	1964	1965	1966
GDP 1960 prices (Ug.Shs. million)	3004	3204	3484	3688	3828
GDP Current prices (Shs. million)	3134	3518	3902	4468	4664
Exports ₤ million	3.6	3.7	6.8	8.7	
Copper production (tones)	15.3	16	18	16.9	
Electricity generated Units	453.1	497.0	521.1	572.0	
Index 1959 – 100	131	144	151	166	
Volume of Exports Index (1958 100)					
Cotton	166	185	175	197	209
Coffee	47	85	92	98	100
Copper	142	140	160	158	142

Source: 2nd Five Year Development Plan

Industrial production in key industries was also growing (Table 6.2). The economy had some few major products, cotton, tea, coffee and tobacco, among agricultural products and copper among the minerals. Production of these products was clearly on the increase. (Table 6.1)

Table 6.2**: Industrial Production; Gross output 1963–1966 (Shs.'000)**

Year	**1963**		**1964**		**1965**		**1966**	
Percentage		%		%		%		%
Industrial Group								
Processing of agricultural products manufacturing	90	24.7	82	20.5	75	16.1	67	14.2
Electricity	225	61.8	263	66.1	327	70.5	333	70.8
Quarrying	48	13.2	53	13.2	60	12.9	68	14.5
	1	0.3	1	0.2	2	0.5	2	0.4
TOTAL	**364**	**100.0**	**399**	**100.0**	**463**	**100.0**	**470**	**100.0**

Source: 2nd Five Year Development Plan

In this period, policy was free market economics encouraging the private sector and there was growth in the country

Table 6.3: **Summary Indicators during the period**

GDP growth rate	4.8%
Per capita GDP	3 percent
National Savings rate	13.4% of GDP
Capital accumulation	13% of GDP
Exports	25% of GDP
Tax revenue as percentage of GDP	14.6%

Source: 2nd Five Year Development Plan

c) **The role of entrepreneurship**

The World Bank had recommended putting emphasis on the private sector while holding the line on expansion of the public sector (Uganda National Report, 1962). The nature of ownership of business during this period did follow that of the period prior to independence. Government had established the UDC and indeed through it government was playing the role of entrepreneur (Hafsi et al, 1987).

The UDC was establishing industries in various sectors in the economy (First Five Year Development Plan, 1961/62 – 1966/67) and was getting into partnership with the private sector also. The UDC owned or had shares in most of the key industries in the country including tea estates and copper mining among others (Hafsi et al, 1987). Another important feature at this time was the role of the Eastern African Community and prior to it, the East African Common Services Organizations. This regional body that brought together Uganda, Kenya and Tanzania owned and operated the Railways, Postal Services, Habours, and many other common services (First Five

Year Development Plan, 1961/62 – 1966/67; Jorgensen, 1985). Government was therefore playing an important role as an entrepreneur. But while government played this role, the private sector was also a very active player. The Madhvani and Metha groups which started operations before independence were growing at a very fast rate. By 1971, the Madhvani group had over 70 different companies. The UDC owned shares in some of these companies. By 1971 the Madhvani group contributed approximately 10% of the country's tax revenue. The economy continued to be dominated by primary products, coffee, cotton and tea production, and copper mining. The opportunities existed for manufacturing as the urbanization grew as the population changed slowly from subsistence farming to a monetary one.

> *"This was a very good time for the group. We were starting more than two companies every year and we saw more opportunities everywhere in the economy. The 1966 events (where the Kabaka of Buganda who had been President of Uganda was removed and exiled) were a setback initially but we quickly overcame that. We had business in textiles, property, sugar, chemicals, steel manufacturing among others. We became worried when government announced the policy of nationalization. We thought this was not good for the economy. The coup that brought Idi Amin to power was the worst thing that happened for business, the people of Uganda*

> *and the economy. I was in the transport business before I got interested in batteries. My business was doing very well. I was attracted to batteries by a German visitor…. I did not see the departure of the Asian community as an opportunity. I thought this was not good for business"* James Mulwana, a leading Portfolio Entrepreneur

The structure of the economy continued to allow the small scale farmers to take an active and important role in coffee and cotton production which were the countries main exports. There were thus different types of entrepreneurs including government, the corporate entrepreneurs, mainly the multinational companies that controlled the financial sector, an emerging group of industrialists with portfolio entrepreneurs at the top, government as an important entrepreneurial player and the small entrepreneurial farmers.

6.3.2 Period 1967 – 1970

a) Macro economic policy

The political conflict in 1966 led to the ousting of Kabaka Mutesa as first President of Uganda and the abolition of the Kingdoms. A republican government was declared and a new constitution promulgated. In 1967, Tanzania, Uganda's neighbour in the South and a close ally, announced the ***"Arusha Declaration"*** which was the nationalization of means of production and takeover by government of all major business units through nationalization (Nyerere, 1977). Uganda, led by Obote under the UPC followed suit in 1969 by declaring the "*Move to the Left*". This was formalized as a policy in ***The Common Man's Charter*** document in 1970 that was intended to move the country from free market to centralized planning (Obote, 1970; Mamdani, 1995). Government announced nationalization of key industries through acquisition of controlling 60 per cent shareholdings in selected industries. This was a major shift in economic policy. A move from promotion of private investment to the increasing role of government.

In 1970, nationalization of major foreign-owned firms was officially declared and even initiated. However, it came in the midst of implementation of the Second Five Year Development Plan (1966/7 – 1970/71) which was largely a consolidation of the first Five Year Development Plan. The first plan had put emphasis on the private sector. While initiative was taken to nationalize companies, the general policy framework was free markets.

b) **Economic performance**

The policy of nationalization was announced midway through the implementation of the second plan and changes appeared not to have immediately affected the production and productivity levels of the country. Production in major products of cotton, coffee, tea, tobacco and sugar grew as evidenced in (*Table 6.4)*.

Table 6.4: Production of major cash crops

Cash Crop	1967	1968	1969	1970	1971
Coffee '000 tonnes	135.5	244.7	247.2	201.5	175.7
Cotton '000 bale	344.8	421.2	422.9	466.8	412.7
Tea '000 tonnes	11.4	15.4	17.6	18.2	18
Tobacco '000 bales	3.5	3.9	3.4	3.4	4.4
Sugar '000 tonnes	139.0	154.9	140	144.2	141.3

Source: Action Programme 1976/77

The immediate post-independence period 1962 to 1970 saw growth in the economy that was caused by policies that lay emphasis on the private sector. The public sector existed and was growing through the Uganda Development Corporation. *The Move to the Left*, however had been announced and this was intended to increase the role of the government in the economy. It was being implemented when the government was overthrown in 1971. The impact of the policy was therefore not realized.

6.4 Economic Growth Trends during the period 1972 – 1985

6.4.1 Idi Amin period 1972 – 1979

The impact of Obote's nationalization policy was not realized because in 1971 the government was overthrown and Idi Amin took over. Amin reversed the policies of nationalization but also declared what he called "Economic War", which involved expelling the Asian community and other foreigners from the country and handing over businesses to Ugandans through a Ugandanization policy (Jamison, 1992).

a) **Macro economic policy: The intentions**

At the commencement of this period, the policy framework was based on the objectives set out in the Common Man's Charter, which had been incorporated in the Third Five Year Development Plan.

The objective of the Third Plan (1971/72–1975/76) was to accelerate increase in GDP and per capita GDP and transformation of the structure of the economy. The strategy was through expanding markets and increasing investment. There was also specific attention given to improvement in productivity. It was envisaged that productivity would be increased through adopting new methods in agriculture and availing more advanced inputs to the sector. The policy framework in the document had been adjusted from a free market oriented policy of the 1960s to one where central planning was to be the key. This was a line with the *"Move to the Left"* as stated in the Common Man's Charter.

Macro economic policy: The realized one

The plan was not implemented as had been anticipated due to the military coup that took place in 1971. The military government decided to reverse the socialistic policies of central planning and adopt market-related policies. The socialist policies were cited as one of the reasons for overthrowing the government then. The military government was very erratic and there was no consistency in policy formulation and implementation. It had announced a reversal of policy contained in the 3rd Plan document, but subsequently Idi Amin had a dream about expelling Asians who owned and controlled most of the trade in the country (Jamison, 1992). As a result, he declared the Economic War, a policy of Ugandanization of business through expulsion of non-Ugandans and distributing of businesses to Ugandans. Asians who held British passports were given 90 days to leave the country and businesses were either allocated to individuals and or nationalized or closed (Mamdani, 1996). However, not only did the Asian community leave but most of the foreigners left too. The Asian community controlled trade while other foreigners controlled manufacturing through branches of multinationals. Expatriates in many key management positions also left. There was break down of law and order. Policy was frequently changed arbitrarily by the President, government or military spokesperson. Often, implementation of policy was contradictory. Policy in this period can best be described as anarchic. As a result of these developments and the 1973 oil crisis, the Idi Amin military government suspended and replaced the Fourth Five Year Development Plan with the Action Programme 1977/78-1979/80. Like the Third Plan, the Action Programme was largely on paper (Recovery Programme, 1980).

b) **Economic performance**

During this period, the country not only lost a large proportion of professional and skilled human resources but also business owners, the entrepreneurs. The Madhvanis, who had over 70 different companies and were the leading industrialists in the country, left. Others included the Metha family. Many local people were killed and others left the country (Kyemba, 1997; Mamdani, 1996). The departure of the Asian community saw a loss of an important entrepreneurial class. This community at that time controlled trade in the country and was also involved in manufacturing along with other foreigners. GDP in this period stagnated and in some years reduced while the population grew at an average of about 2.6 percent per year.

Fixed investments declined from US$350 million in 1970 to about US$79 million in 1981 (Obwona, 2001). GDP grew negatively and by 1980, the economy had shrunk to levels below those of 1970. It fell from its peak in 1972 of UgShs.7,542 million to Shs.6,115 million in 1980 at constant prices, a decline of about 25%. Per capita GDP fell from US$225 in 1970 to US$136 in 1980 (Table 6.5). Production had declined and productivity was low. The country's export earnings were however on the increase. While the volume of exports declined, the value increased. This was a result of the high world coffee prices in most of the 1970s. Inflation went from single digit to double digit (Table 6.5).

Table 6.5: Uganda Performance Indicators 1970 – 1980

	1970	**1972**	**1974**	**1976**	**1978**	**1980**
GDP US$ million	2220	2103	2188	2457	2295	2175
GDP growth rate (%)	1.7	1	1.2	2.3	-6.6	-5.2
Per capita GDP ($)	225	219	214	199	180	136
Population (millions)	9.4	10.04	10.57	11.11	11.67	12.30
Population growth rate (%)	3.4	2.7	2.5	2.7	2.8	2.3
Exports US$ million	297	284	290	252	556	415
Annual Inflation rate (%)	1.26	1.24	49.46	38.84	47.61	45.98

Source: Ministry of Finance, Planning and Economic Development and Bank of Uganda

Industrial production declined sharply. Notable amongst the key products was the production of cotton fabrics, blankets, beer, cigarettes, batteries and soft drinks (Table 6.6). The country was hit by shortages of essential consumer products and lines.

Table 6.6: **Industrial Production**

	Unit	**Installed Capacity**	**1970 product**	**1980 product**	**Decline %**
Cotton	Linear	38,000	35,501	17,676	50
Cotton fabrics	Metres	19,000	10,050	2,162	80
Blankets	Pieces	1,500	1,216	41	97
Beer	Litres	47,500	25,329	13,153	50
Cigarettes	Mill pa	1,900	1,462	628	60
Batteries	Pieces	50,000	7,451	10,000	-130
Soft drinks	Litres	121,090	5,606	2,150	60
Sugar	Tonnes	150,000	137,455	2,984	98

Source: Ministry of Finance, Planning and Economic Development and Bank of Uganda

The decline could have been greater however, during this period, the world coffee prices rose sharply as a result of frost in Brazil a major coffee producer. This gave the country a boom as reflected in the export earnings (Table 6.5) which increased despite the decline in other sectors of the economy.

c) **Role of entrepreneurship**

As had been stated before, the entrepreneurial fortunes of the country tended to follow the specific pattern of the politics that existed in the country. There had been an attempt in 1969 and 1970 to nationalize the companies that existed in the 1960s. Government was thus extending its entrepreneurial role. This attempt to nationalize was however short lived as Idi Amin took over government in 1971. Idi Amin, as already stated above, reversed the socialist policies. However, Amin expelled the foreigners from the country and this changed the entrepreneurial landscape. The entrepreneurial business ownership structure had largely been discussed in Section 6.3.1(c). Agricultural production was by peasant farmers while the Asian Community controlled trade and light manufacturing. The bigger manufacturing industries were controlled by a few portfolio entrepreneurs and the UDC. The decision to expel the Asian Community and subsequently the departure of foreigners from the country in 1971 led to an economic slow down. The Asian community were given 90 days to leave the country (Jamison, 1992; Mamdani, 1995) and they simply abandoned their businesses. The entrepreneurial class that dominated trade, food processing and industry left their businesses behind as they were forced out of the country. The departure of the foreigners generally also led to the collapse of the UDC (Hafsi, et al, 1987). The UDC had become the flagship of industrial development but was managed largely by foreigners. When they left, the companies owned by UDC collapsed. A new structure was created to manage them. Some were allocated to individuals and government established a new holding company to manage the rest (Action Plan). The businesses left by the Asians were allocated to Ugandans who lined up in the streets to be allocated shops and industries. A new class of "entrepreneurs" was thus created overnight. Several of the respondents in the small to medium size businesses who were interviewed narrated their stories as follows:

> *"I used to work in Nytil, Jinja as a machine operator. When the Indians left, we were initially shocked by the decision of government to expel them. In the subsequent days, we were told you could be allocated a business if you lined up. I lined up on Lubas Road and I was allocated Singe Sewing Machine shop. It had new sewing machines, a workshop, and I even discovered cash that had been hidden in the workshop. I had never run a business before and all of a sudden I was in one. The business collapsed within six years primarily because I*

had no idea what to do. I am now wiser. I ran a small retail shop."

Another respondent, also in Jinja town, said,

"We heard rumours that soldiers were allocating businesses. I had been working as a dispenser in a health clinic in the outskirts of Jinja and I knew that the Indians who were leaving were wealthy and if I was also given the shops they used to own, I would become wealthy. I lined up for two days and on the second day, I was allocated a shop on the Kutch Road in this town (Jinja). When I opened the shop, it was stocked full but I had no idea about what to do. The money I got in the initial months, I used to construct a house and also buy a car. Unfortunately by the end of the first year, the business had started failing. It never recovered. What I learnt was business required knowledge and skills which I did not have at that time. I have tried many things but I haven't succeeded much".

Several African entrepreneurs started emerging in this period. Among the portfolio entrepreneurs, James Mulwana, Kassim Kiwanuka, Gordon Wavamunno, Aga Ssekalala, started consolidating their businesses which they had started prior to the departure of the Asian Community. But they saw this period as one that brought more opportunities for them to succeed since the competition by the Asian Community that had dominated the trade had ceased all of a sudden.

Several entrepreneurs saw opportunity to start and grow business. These were Mohan Kiwanuka, Ahmed Nsubuga and Bulaimu Kibirige.

Mohan Kiwanuka said, *"I was working for a bank as a senior person but I had always wanted to do my business. Working in the bank enabled me to save money to start. I left after buying land* [in Ntinda industrial area where his factory is]. *My experience in the bank [*Uganda Development Bank which was a long term financing bank] *gave me the knowledge I required to raise funds"*.

Bulaimu Kibirige left his home after arguing with his mother. *"My mother told me go to Kampala to find something to do, there was no future for me in the village".*

The opportunities during this period were primarily in trade. The economy declined by about 25% between 1971-1979. However, the coffee boom had created a thriving economy based largely on sale of imported goods. Nonetheless, the economy had been damaged by the departure of the entrepreneurs who had evolved over time and the collapse of the UDC.

6.4.2 Period 1980 – 1986

After the removal of Idi Amin, in 1979, the economy experienced a variety of problems. The country experienced a drought leading to famine in many parts of the country. There was insecurity in the country attributed to weak post Idi Amin governments. Between 1979 and 1981, there were three changes of government from Yusuf Lule to Godfrey Binaisa and then to Paul Muwanga before Milton Obote took over following the then contested elections of 1981.

a) **Economic policy**

Following the decline of the 1970s, the economy required a major kick-start in order to resuscitate the productive sector. This culminated in the first standby arrangement in 1981 with the IMF. The policies adopted included reducing the overall budget deficit and domestic credit to the government, stabilization of the value of currency together with increasing production through free market policies. Government also tried to adopt policies that encouraged financial sector widening and stimulated domestic savings through higher interest on deposits.

However, these policies did not bear results largely because (a) they came amidst drought conditions in the country, (b) little progress was made in improving the tax structure and revenue collection, and (c) the weak expenditure controls because of the civil war resulting in a huge budget deficit. This built up inflationary pressures in the economy and culminated into the suspension of the agreement with the IMF.

b) **Economic performance**

Agriculture being a major component of the country's GDP, the drought reduced economic activity and led to inflation (Kasekende and Atingi-Ego, 1996). The country's low level economic activity affected its international trade performance leading to shortages in foreign exchange. This exacerbated the shortages of consumer goods in the country.

Despite this, there was a sign of relief in the economy and inflation came down between 1982 – 1984 and GDP grew by about three per cent. However, the growth could not be sustained because of insurgency in the Luwero triangle.

A group of 27 people led by Yoweri Museveni, the current president, had disputed the elections held in 1981 alleging that they were rigged. This had led them to taking to the bush to wage a guerrilla war to oust the "elected" government. The insecurity created by this warfare led to loss of confidence by investors and the gains made through the policies initiated in 1981 soon disappeared.

The economy was again subjected to imbalances and distortions. Foreign exchange and trade restrictions were re-imposed and growth was constrained. As a result real GDP declined by ten per cent between 1984-1985, inflation that had been checked at levels of 25-30 per cent, soared back to triple digits by the end of 1985 now over 200 per cent per annum and the economic mismanagement through overvalued exchange rate reduced the export base to a single export i.e. coffee. The values and volumes of coffee exports, however, exhibited a declining trend due to rampant smuggling. In addition, the import values also declined reflecting reduced capacity of the country to finance imports including essential intermediate goods. GDP at 1966 prices started growing from Shs.6,115 billion in 1980 and peaked to Shs.7,375 billion in 1983 as a result of the policy matrix in place. It thereafter declined and was Shs.6,868 in 1986. GDP responded to the positive policy in 1982 and 1983 but became negative in 1984 (Table 6.7).

Table 6.7: Uganda's Performance Indicators; 1981 – 1986

	1981	**1982**	**1983**	**1984**	**1985**	**1986**
GDP US$ million	1,724	1,596	1,741	2,194	2,628	3,507
GDP growth rate (%)	7.5	11.7	9.6	-8.5	-1.9	-1.5
Per capita GDP ($)	146	144	147	161	187	226
Population	12.64	12.64	13.0	13.38	13.79	14.22
Population growth rate (%)	2.1	2.0	1.9	1.9	2.0	2.9
Exports US$ million	274	347	368	424	372	410
Annual Inflation rate (%)	164.17	34.85	21.17	100.95	90.93	358.42

Source: Ministry of Finance, Planning and Economic Development; The Economist Intelligent Unit; Bank of Uganda

Annual inflation rose from about 50 per cent in 1981 to 238 pr cent in 1986. Exports in value rose from US$319.1 million in 1980 to US$407.5 million in 1986. The volume of exports with mainly coffee as the principal export item rose from 110,100 tonnes in 1980 and peaked in 1982 at 174,700 tonnes and declined thereafter to 140,800 tonnes by 1986. Export value of various products showed some increase in 1983 and 1984 and thereafter started declining.

It is again worthy noting that while policy framework was good, it was abandoned at some stage due to the civil war in the country which also affected the environment. As a result growth did not take place. In fact, the economy declined by about ten per cent between 1982 and 1985. Production of key manufactured goods continued to decline in most products (Table 6.8).

Table 6.8 Index of Industrial Production
Base Year 1982

	Food	**Drinks**	**Textiles**	**Leather**	**Timber**	**Chemical**	**Bricks**	**Steel**	**Misc**
1982	106.7	48.6	196.7	77.9	68.2	64.6	163.7	81.6	87.6
1983	103.7	59.8	177.6	152.8	79.6	68.8	177.4	118.5	124.3
1984	99.8	79.4	136.9	175.5	88.7	61.2	154.5	110.7	139.5
1985	93.9	84.8	98.9	86.9	76.8	58.6	122.7	133.1	139.1
1986	85.3	82.2	92.9	90	72	58.8	120.6	105.9	141

Source: Ministry of Finance

6.5 Economic Growth Trends in Uganda: The period 1986 to date

After the civil conflict that ended in January 1986, Museveni and his guerilla army, the NRA, took power. Museveni was a known socialist who had associated with other leftist guerilla movements in Africa, mainly in Mozambique. He came to power with a ten point programme which put emphasis on the role of government in the economy. For about one year, government experimented with centralized planning and the economy did not respond. There was a change in 1987. In that year, a major shift in policy was announced moving the country to free market policies. Government announced policies of liberalizing the economy, privatizing public enterprises, reforming the civil service and public sector institutions. These policies have been vigorously pursued ever since.

As part of this free market strategy the Government established the Uganda Investment Authority as a vehicle to attract investment in the country (*See Section 6.8.2)*. Many new companies have been attracted to invest in the country as a result. These policies came against a background of globalization and increased competition.

Economic performance

The Uganda economy is adversely affected by the predominance of agriculture, low levels of education and unskilled labour. Being land-locked also tends to affect the country's ability to compete successfully in the world markets (Collier, 1996). Despite this, the macro economic policies implemented since 1987 and the secure environment provided by government in most parts of the country have been able to cause growth in the economy. This growth has come as a result of increased security in the country leading to increased investment and efficient utilization of resources in the economy. The growth is reflected in the establishment of industries, increased production, increased investment in the country, more taxes collected besides other indicators.

GDP at 1991 prices has been increasing since 1987. In 1989, it was Shs.1,881 billion and grew to Shs.3.061 billion by 1997. GDP growth rates rose from 6.7 percent in 1986 and peaked at 10 percent in 1995. Annual inflation collapsed from the peak of 238 percent in 1986 to negative 5% in 1993 and has since kept below 10%. (Table 6.9). The zealousness and dedication with which government pursued these reform policies produced quite favourable results, some of which are

(i) Impressive average growth rates of GDP of around 5% over the last 18 years.
(ii) An increase in Foreign Direct Investment (FDI) and unrequited transfers from an average of 5.3% in 1986/87 to the 8.13% in 1994/95.
(iii) Increased volume of exports from 5.73% of GDP in 1992/93 to 10.31% of GDP in 1996/97.
(iv) Increase in the domestic investment-GDP ratio from 8.4% in 1985/86 to 17.3% in 1995/96.

Table 6.9: Uganda's Performance Indicators; 1987 – 1998

	1987	**1989**	**1991**	**1993**	**1995**	**1997**	**1998**
GDP US$ million	3,893	4,899	3,250	3,165	4,365	4,967	5,240
GDP growth rate (%)	3.8	6.1	5.8	8.4	10.5	5.2	5.5
Per capita GDP ($)	261	280	210	265	270	290	296
Population (million)	14.68	15.67	16.77	16.9	18.2	19.6	20.2
Population growth rate (%)	2.9	2.9	3.1	2.9	2.6	2.8	2.6
Exports US$ million	410	266	199	242	560	619	496
Annual Inflation rate (%)	163.03	81.07	32.14	8.38	8.81	7.2	

Source: Ministry of Finance, Planning and Economic Development; The Economist Intelligent Unit; Bank of Uganda

Industrial production has tremendously grown for all major items. Using 1987 as a base of 100 industrial production had shot to 441. There has been an increase in all areas (Table 6.10)

Table 6.10: Index of Industrial Production 1987-1997

	1987	**1989**	**1991**	**1993**	**1995**	**1997**
Food	100	153.7	227.4	245.8	301.8	428.6
Drinks	100	143.7	176.1	170.9	308.5	398.5
Textiles	100	132.7	110.9	93.5	62.7	113.5
Steel	100	98.9	149.3	258.5	490.5	451.5

Source*: Ministry of Finance and Economic Planning*

Base Year 1987

External trade performance has seen improvements with imports raising from US$522.6million in 1991 to over US$1.6 billion in 1998 while exports grew from US$184 million to US$536 million in the same period (Table 6.11).

Table 6.11: Summary of External Trade 1991 – 1998 (US$'000)

Year	1991	1992	1993	1994	1995	1996	1997	1998
Imports	522,690	524,434	402,510	715,631	1,047,649	1,341,912	1,307,523	1,633,676
Exports (including Re-Exports)	184,263	146,767	201,231	459,939	576,544	710,655	594,633	536,752
Trade Balance	(338,427)	(377,667)	(201,279)	(255,692)	(471,105)	(631,257)	(712,890)	(1,096,924)

***Source**: Uganda Revenue Authority; Bureau of Statistics and Bank of Uganda*

Export volume has increased over time showing a recovery in agricultural production where there had been a tremendous decline.

Table 6.12 (a): Domestic Export by Quantity 1991 – 1996 (in tonnes)

Commodity	1991	1992	1993	1994	1995	1996
Coffee	127,438	119,006	114,169	194,325	168,860	278,711
Cotton	7,819	7,536	7,961	3,841	5,580	9,756
Tea	7,018	7,816	10,175	10,972	10,682	14,982
Tobacco	2,400	2,291	4,109	4,082	3,525	3,066

***Source**: Uganda Bureau of Statistics*

Table 6.12 (b): Domestic Export by Quantity 1997-2002

	1997	1998	1999	2000	2001	2002
Coffee	210,123	197,143	230,466	150,891	187,277	201,591
Cotton	18,915	4,915	14,482	21,290	12,429	12,322
Tea	18,210	22,893	22,102	26,388	30,447	30,400
Tobacco	4,809	8,109	4.714	14,128	14,589	23,66

Source; Uganda Bureau of Statistics

Since 1986, the macro economic policy mix has focused on controlling inflation, stabilizing the financial sector, and liberalization of the different markets. The country has also over the period, seen a relatively large volume of investments both foreign and local. These were attracted through incentives, policy and right environment. Security and political stability have been the hallmarks of this period. High growth rates in the economy have been recorded in all sectors. New industries emerged, old industries rejuvenated some industries folded up. Many new organizations have been started, many folded or were sold *(See Section 7.8)*

It is evident from the secondary data that positive macro economic policies result in increased production as evidenced by the increase in production both of industrial products and agricultural products and growth of GDP.

Table 6.13: Index of Industrial Production in Major Manufactured Commodities

	1997/98	**1998/99**	**1999/00**	**2000/01**	**2001/02**
Sugar	100	125.7	129.1	135.5	150.2
Beer	100	115.6	123.5	125.0	96.6
Soft Drinks	100	110.7	112.6	110.0	126.3
Cigarettes	100	95.6	67.9	72.5	53.3
Textiles	100	105.0	94.5	59.2	61.1
Cement	100	117.1	118.3	131.9	160.5
Laundry Soap	100	106.5	136.1	142.6	147.2
Edible Oil	100	119.4	144.2	159.2	160.7
Metal Products	100	132.8	146.4	142.6	164.8
All Items	100	116.3	122.6	124.4	127.9

Source: Uganda Bureau of Statistics

The environment is also crucial for growth, political stability, and security of individuals encourages production and growth. However, an important additional element is the presence of the entrepreneur, who is the instigator of growth in the years when there was growth. To be able to understand the growth trends more clearly, we select some indicators for further analysis.

Role of entrepreneurship

The role of entrepreneurship in this period is clearer primarily because it's more recent and the records are more readily available. The liberalization of the economy opened new opportunities for entrepreneurs. The sectors where government had previously operated were now available for entrepreneurial activity as a result of the privatization policy. These included; banking, broadcasting, insurance, coffee trading, insurance, telecommunication, electricity, and railway operations among others. The liberalization policy therefore created opportunities and subsequently entrepreneurial activity.

Another activity was the encouragement of potential investors into the economy that led to the enactment of the Investment Act and establishment of Uganda Investment Authority responsible for attracting investments into the country.

Prior to that in 1983, the Obote II government had enacted a law; the Expropriation Act that was supposed to encourage the return of assets of the departed Asians to the original owners. This law was intended to attract the Asian community who had left the country to return not only to re-possess their property but also to encourage them to return and engage in the entrepreneurial activities. A few Asians returned however, the subsequent events of the war in Luwero led by Yoweri Museveni created instability in the country and business did not pick up as had been expected. Even the number of foreigners coming into the country was small.

Since there had been a decline in the production of the cotton and coffee, the economic activities related to this had reduced, the ordinary small farmers were now engaged in food production.

The African entrepreneurs who had now firmly established themselves in the late 1970s and early 1980s continued to consolidate. The key portfolio entrepreneurs were Gordon Wavamuno, Agha Ssekalala, James Mulwana, Mohan Kiwanuka, and Thomas Kato. *(See Chapter Seven)* There was a group of Ugandans of Asian origin who had never left the country but emerged in the early 1980s. These included Karim Hirji, Armaral Karmali alias Mukwano. These also emerged as important entrepreneurs in the country.

Most of the portfolio entrepreneurs mentioned above seized opportunities in the new growing sectors in the economy as is evident in *Chapter eight*. They entered the various sectors including forex bureaus, insurance, banking, beverage production and others. The entrepreneurial activity is evident in business start ups recorded as registration of businesses, the number of investors attracted into the country, the growth of tax revenue over the years, the increase in number of companies in the telecommunication radio stations, banking and insurance among others. It was clear that entrepreneurship was playing a major definite role in the economy. There is thus a definite relationship between entrepreneurship and economic growth.

6.6 Trends in performance in selected performance indicators

The overall performance in the economy in the last 18 years has been positive. The economy has grown responding to policy and the right environment and the actions of entrepreneurs. However, from the industrial production statistics, it is evident that some sectors and indeed industries performed better than others. Industry and services have achieved appreciable growth while agriculture has grown at a lower rate. The following indicators in section 6.6.1 to 6.6.6 reveal the performance in different aspects and sectors.

6.6.1 Total number of companies registered

Registration of businesses in Uganda is done centrally by the Registrar of Companies who registers all types of business including sole proprietorships, partnerships and limited companies, both private and public. Companies incorporated under Acts of Parliament and some of the cooporative societies are, however, excluded. Cooperative societies may be registered at the district level. However, there are thousands of businesses that are never centrally registered especially those in rural areas but who may get a trading license from the local district administration. There are also the seasonal businesses and the market stalls that are never registered. These constitute the informal sector. They are actually the majority of businesses in the country but are not in the national records. This confirms Storey's (1994) findings about the difficulty in identifying start-ups. These are however reflected in the country's GEM Uganda Study reports 2003 and 2004 when three in ten people start businesses in the previous year. Despite this, there is a clear trend of growth in the number of registered businesses in the country in the formal sector. This statistic concentrates on mainly businesses in the capital city Kampala or in urban areas where businesses must have some formal registration to open bank accounts or secure credit and other services.

Changes in registration procedures through decentralization reportedly led to delay in compilation of data. The increase in registration of companies is particularly large in the period 1999 to 2001 (Table 6.14).

6.6.2 Growth in investments

As part of the effort to stimulate growth in the economy, the government established the Uganda Investment Authority in 1991 which is a one-stop centre for attracting and licensing of investments both local and foreign.

> *Prior to its establishment, an investor, especially a foreign one, would camp in Kampala and seek to find where to register a business, where to get what licenses, secure land, learn about investment benefits and it would at times take up to one year before an investor started say construction of a factory building and getting the required supporting services to it.* (Reported by the Executive Director of the Uganda Investment Authority)

Table 6.14: Record of registered companies at the Registrar of Companies

Table 6.14: RECORDS FROM COUNTRY REGISTRAR OF COMPANIES			
No.	**Year**	**Total No. of Companies Registered**	**Accumulative Figures**
1	1980	7,958	7,958
2	1981	9,186	17,144
3	1982	10,259	27,403
4	1983	11,200	38,603
5	1984	11,265	49,868
6	1985	13,320	63,188
7	1986	14,204	77,392
8	1987	16,115	93,507
9	1988	17,835	111,342
10	1989	19,612	130,954
11	1990	21,186	152,140
12	1991	22,616	174,756
13	1992	23,788	198,544
14	1993	26,841	225,385
15	1994	26,841	252,226
16	1995	28,956	281,182
17	1996	31,451	312,633
18	1997	34,062	346,695
19	1998	36,709	383,404
20	1999	37,666	421,070
21	2000	43,054	464,124
22	2001	46,823	510,947
23	2002	16,739	527,706
24	2003	16,474	544,180
25	2004	12,062	556,242
26	2005	11,469	567,711

Source: Registrar of Companies

The Uganda Investment Authority was established as a one-stop centre to attract and provide all the necessary services to investors so as to ease and expedite the process of licensing. Since its establishment, the number of projects licensed has gone up from 11 to 1991 to 8,284 in 2004. The investments made in US dollars has gone up from US$64 million in 1991 to US$78.63 million in 2005. Employment generated by the investments has gone up from 1,008 in 2001 to 28,698 in 2005. This is a clear reflection of the growth that has taken place in the economy resulting from entrepreneurial activity of opportunity perception and business start-up. The Uganda Investment Authority registers and facilitates projects, whether local or foreign, with investments of US$50,000 and above. This therefore does not capture the thousands of businesses started with even less than US$50,000 and, more importantly the hundreds of thousands who never register at all.

Table 6.15: Investments made into the country

Year	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
Projects Licensed	11	229	464	940	1412	1881
Cumulative Investment	64.84	549.7	1172.5	1675.2	2398.5	3240.3
Cumulative Employment	1,008	15,714	44,093	77,787	109,316	138,698

Source: *Uganda Investment Authority Reports Uganda Investment Authority: Annual summary of Totals for Licensed Projects.*

6.6.3 Tax revenue collection

The economy declined in the 1970s and early 1980s. Between 1972 and 1980, GDP declined by 25 per cent and between 1984 and 1986, it declined by ten percent. This meant that tax collection also declined. By 1972, total tax collected as a percentage of GDP was about fourteen percent. By 1987/88, it was about seven percent!. While GDP has been growing by an average of five percent per year over the last 18 years, tax revenue collections have been growing at even a faster rate. In the 1987/88 fiscal year, total taxes collected were UgShs.22,262 billion. The figure had gone up to Shs.1,921,647 billion in 2004/5.

As a percentage of GDP, tax collections have grown from seven percent of GDP in 1987/88 to about 13 percent in 2004/5. This is against a background of agriculture contributing 45 percent of GDP of which the non-monetized element of that is about 50 percent. In GDP terms, about 25 percent is not in a taxable framework. This means the growth in tax collection has been remarkable.

Table 6.16: Recurrent revenue performance (in billion Shs)

1987/88	**1988/89**	**1990/91**	**1992/93**	**1994/95**	**1996/97**
22,262	49,719	137,225	287,112	531,194	762,499

2001/2	**2002/3**	**2003/4**	**2004/5**
1,212,349	1,409,253	1,642,770	1,921,647

Source: *Ministry of Finance, Planning and Economic Development and Uganda Revenue Authority Reports*

6.6.4 Export performance

Uganda has predominantly been exporting primary agricultural products of coffee, cotton, tea and tobacco. In the 1960s and 1970s, the country also exported copper. These are products whose prices on the world markets continued to fall and are exported as raw materials to other countries with little value added. Uganda, like many developing countries cannot export processed products because taxes in the importing developed countries, imposed on such products are prohibitive (Daviron and Ponte, 2005). For instance export of coffee beans into the European Union attracts a 10% duty while export of processed coffee like NESCAFE attracts 200% duty. Coffee is thus grown in Uganda and Uganda imports Nescafe when value has been added at prohibitive prices. Despite this, the country has realized growth in export performance.

Coffee was until 1989 marketed under the Coffee Marketing Board (CMB), a government marketing monopoly. When the CMB was dismantled as part of the liberalization policy which allowed the private sector to market the coffee abroad, (see Tables 6.17a & 6.17b) the result was higher prices to the farmer and increase in production of coffee crop. This is despite the fact that many peasant farmers had stopped growing coffee.

Table 6.17(a): Domestic Exports by Value (US'million)

Commodity	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
Traditional export crops	140,685	115,515	130,432	366,847	408,357	434,116
Non-Traditional export crops	43,578	31,252	70,799	93,092	165,909	276,539

***Source**: Uganda Bureau of Statistics*

Table 6.17 (b): Domestic Exports by Value (US $ '000)

Commodity	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Traditional Export Crops	381,618	353,870	341,464	211,343	173,213	182,700
Non-traditional Export Crops	213,010	182,877	137,286	190,302	278,552	284,905

Source: Uganda Bureau of Statistics

Similarly, liberalization of the cotton and tea industries also resulted in increases in production as higher prices were paid to farmers. The value of export earnings from the traditional products, coffee, cotton, tea and tobacco rose from US$140.6million in 1991 to US$182.7million in 2002. It peaked to US$434.1million in 1996 and reduced due to reducing international prices. Volume on the other hand has been increasing. *See Tables 6.17(a), 6.17(b), 6.18*. The liberalization of the economy and the export drive saw increase in non-traditional exports of cut flower, fish, among others. These increased from US$43.5million in 1991 to US$284.9million in 2002.

At one time, coffee exports constituted over 90 per cent of the country's export earnings. There has been however an effort to increase the export of the non-traditional items (Dijkstra, 2001). Besides coffee, tea, cotton and tobacco have been grouped as traditional export items. By 2002 non-traditional exports had outpaced the traditional one. (Table 6.14)

Table 6.18: Domestic Exports by value and volume 2000/1-2004/5

		2000/1	**2001/2**	**2002/3**	**2003/4**	**2004/5**
Coffee	Value US$'000	458.3	474.0	507.9	647.2	7,147
	Volume 1000 metric tones	2,840	3,156	2,993	2,552	2,478
Tea	Value US$'000	35.9	26.9	29.5	39.3	37
	Volume '000 metric tonnes	28,091	30,301	31,136	36,179	33,300
Cotton	Value US$'000	14.01	18.0	16.9	42.8	38.6
	Volume '000 metric tonnes	12,144	22,500	16,361	29,565	35,600
Tobacco	Value US$'000	27.6	32.3	39.9	36.2	37.3
	Volume '000 metric tonnes	12,772	17,622	23,478	24,914	26,300

Source: Uganda Bureau of Statistics

6.6.5 Emergence of new and rejuvenation of existing industries

Following the liberalization of the economy that allowed free market forces to operate, new industries emerged and indeed some old ones were rejuvenated. This emergence was a reflection of the true response of entrepreneurship in search of and exploitation of opportunities. Various sectors where government was a monopoly realized sudden growth as government divested itself from them giving rise to completely new industries or resurgence of some dominant ones.

For example, the broadcasting industry which was monopolized by government saw the licensing of over 140 radio stations and over 20 television (TV) stations (see Chapter Eight). Prior to 1990, there was only one radio station and one TV station. Liberalization led to the emergence of the forex bureau sector which did not exist before. Prior to that forex was sold in the parallel market at market prices and in banks at less than market prices (and was not readily available) and the service was not as efficient as it became when bureaus emerged. Cutflower industry, telecommunications, fish farming and export, education industry are some examples of industries that did not exist substantially before that emerged as a result of liberalization. Banking, insurance, beverages, were rejuvenated.

6.6.6 Production of selected commodities

There are a number of products whose production has increased substantially over the period. This includes the production of sugar, edible oil, soap, steel products, soft drinks and beer. Some of these products were produced in the country before 1970 and by 1980, production facilities had closed down. For others, the quantity had reduced to dismal levels.

6.7 Summary

6.7.1 The different political economic phases in the country

The Uganda economy, since independence in 1962, has gone through three distinctive political economic periods. The period 1962-1971, the period 1972-1985, and the period 1986 to date. The first period was characterized by stability and growth, second by anarchy and decline while the third was characterized by recovery, stability and growth.

6.7.2 Macro economic policies in the different phases

In the first phase, macro economic policy was largely influenced by the World Bank Mission Report of 1961 which placed emphasis on the private sector. However, this came against a background of a growing public sector that had been influenced largely by the socialistic policies in Britain as a colonial administrator. The policy statements are contained in the First and Second Five Year Development Plans and were largely free market economic policies.

In the period 1970 – 1985, different policies were enacted although there was a difficulty in implementation. At the time of the military coup in 1971, the then government had announced a move to the left a policy which involved nationalization of the major industries in the country. The Idi Amin Government reversed the policy and made policy that was based on market forces. These were contained in the Third Five Year Development Plan and the Action Programme which replaced the Fourth Five Year Development Plan. These policies were however not implemented due to the announcement of the economic war which involved the expulsion of the foreigners.

The Idi Amin Government was ousted in 1979 and in 1981, the newly elected Government evolved macro economic policies based on market forces. These were contained in the Recovery Programme and the Revised Recovery Programmes that were drawn with support from the IMF and World Bank. These policies however, were not implemented due to the civil strife that engulfed the country in the ensuing years. In the period 1987 to date, major changes were made in the economy based on free market enterprise. These policies have been implemented over the years.

6.7.3 Policy and right environment are determinants of growth

The growth patterns in the Ugandan economy overtime confirm the assertions by both the classical and neo classical economists that free market policies when combined with investments and labour result into economic growth. The economy grew in the period 1962-1971 declined in the period 1972 to 1986 and has been growing since 1987. These growth patterns correspond to the policies in place at those specific times.

6.7.4 Emergence of new industries

Deregulation of an economy, free market policies, and an enabling environment lead to emergence of new industries and also rejuvenates or restructures existing industries. The broadcasting sector, telecommunications, cut flowers, education are such newly emerged industries in Uganda. Banking, insurance along with other industries were rejuvenated.

6.7.5 Competition leads to growth

Liberalization of an economy creates competitive pressures in an industry and leads to growth. The competitive pressure emerges from the entrepreneurial activities of business start-up and innovation. New firms are attracted to an industry and as they jockey for positions, some leave and new ones join. Industries change as a result of this. This leads to growth.

6.7.6 Role of entrepreneurs

Entrepreneurs have a role in an economy. They perceive the opportunities that open come along with the liberalization or right policies or environment and they start-up businesses. This creates jobs and leads to creation of value through producing goods and services. Without start-up no activity is thus linked to economic growth.

6.8 Conclusions

The purpose of this chapter was to ascertain the macro economic policy in place in the Uganda economy over the period 1962-2005, the opportunities that came in the wake of those policies and the role of entrepreneurs in exploiting those opportunities. The Uganda economy has since independence responded to macro economic policy and right environment in tandem with the arguments of the classical and indeed neo classical economists. Where the economic policy matrix was conducive for growth and there was stability in the environment, the economy did grow and where it was not, the economy either remained stagnant or declined.

Just after independence in the 1960s, macro economic policy was pro investment, it supported the growth of the private sector. The environment was also stable and there was growth in the economy. Overall growth in the economy was about 4.5 percent per year. This is despite the political developments starting in 1966. From 1972 to 1986, the economy declined, A 25% decline was recorded between 1972 and 1981, and 10% between 1983 and 1986. 1972 to 1989 was largely a period of Idi Amin (1972-1989) where policy bordered anarchy and he expelled the Asian Community who controlled trade and a large part of manufacturing in the economy. The period 1982-1986, like the Amin era, was also characterized by insecurity. From this analysis, it can be concluded that macro economic policy and political stability influence growth.

Entrepreneurs instigate growth

It is Schumpeter (1934) who acknowledges the entrepreneur as the instigator of growth in the economy (Casson, 1982). The GEM studies have confirmed a relationship between economic growth and entrepreneurship (GEM, UK Report, 2000) Audretsch and Keibach (2004) introduce what they call entrepreneurial capital in their study and attribute growth to this entrepreneurial capital. Acs (2006) acknowledges this role. Carree and Thurik (2002), Acs and Armigton (2006) also acknowledge such a relationship. Most studies draw heavily on Schumpeter's ideas of the entrepreneur being the instigator of growth. Drawing from the data in the Uganda economy, Schumpeter's proposal of the entrepreneur being the instigator of growth in the economy is re-affirmed. What the neo-classical economists call technological progress is innovation which is attributed to the entrepreneur.

The growth in the Ugandan economy in the period 1962 – 1971 can be attributed to the policy and right environment but was instigated by the encouragement of the private sector, those entrepreneurs were attracted to the policy. The departure of the entrepreneurs and multinational corporations in 1972 led to a decline in the economy. It is suffice to note that this period had also insecurity and policy constraints. After 1987, growth has been instigated largely by the portfolio entrepreneurs who followed the opportunities brought by the liberalization freeing of prices and political stability. Entrepreneurs therefore instigate growth through start-up, job creation and mobilizing resources to run business.

CHAPTER SEVEN

PORTFOLIO ENTREPRENEURSHIP, GROWTH AND CONTRIBUTION TO DEVELOPMENT

7.1 Introduction

This chapter deals with the role of the portfolio entrepreneur in the Uganda economy. Given the nature of the Ugandan economy and the phases the economy has gone through, both economic growth and the instigators of the growth have been visible. Since portfolio entrepreneurs make a larger contribution (Scot and Rosa, 1977; Ucbasaran et al, 2003; Ucbasaran et al, 2008) than the small novice or serial entrepreneurs, it was possible to trace their role in the different sectors. The chapter assesses those sectors where growth was high and analyses the role and contribution of the different entrepreneurs to economic growth. In the later part of the chapter a few of the portfolio entrepreneurs are identified and their contributions to growth is assessed in detail.

In the previous chapter (Chapter six), the economic growth patterns in Uganda over the period 1962 – to date were traced and analysed. The analysis established distinct phases of economic growth influenced by different factors. Following independence from Britain, Uganda began its life as a separate nation with a growing economy. The economy stagnated in the 1970s and early 1980s under the regime of Idi Amin and those that immediately followed him. A period of recovery and rapid growth followed political stability and economic policies that came with the government of Yowere Museveni who has been president since 1987.

The analysis demonstrates that under positive macro economic conditions and political stability, there was an increase in entrepreneurial activity and there was positive economic growth. The period of political instability in the 1970s saw the forced departure of many entrepreneurs. Nonetheless new entrepreneurs emerged from the chaos created. But the entrepreneurial activity reduced and growth declined (Chapter six).

Each period had distinctive and different policies, producing distinctive opportunities, which in turn produced different types of entrepreneurs and impacted on the economy as explained above. Chapter Six thus established clearly that there is a relationship between entrepreneurship and economic growth as measured by the changes in growth in GDP. It failed to show, however, the direction of causality. When growth occurs, so does entrepreneurial activity (as indicated by the numbers of new businesses, expansion of existing businesses, new jobs, among other indicators). But is entrepreneurship the cause. This is not definite. Reynolds and Maki (1981) study debated whether entrepreneurs followed growth or caused it without definite conclusions.

Perhaps the most interesting period from the viewpoint of this debate on the relationship between entrepreneurship and economic growth is the years of economic decline in the 1970s and early 1980s. Growth declined, and so did the numbers and quality of entrepreneurs, yet new entrepreneurs still emerged even in this period (Chapter six). Two interpretations suggest themselves. The first is that economic growth declined because the economy was being starved of opportunities, so the number of entrepreneurs declined too. However no country can totally disintegrate economically. There is always enough economic activity to support some new entrepreneurs. Here entrepreneurship clearly follows growth. The second interpretation is that economic decline is a result of reduction in entrepreneurship and entrepreneurial activity. So it is entrepreneurs who provide growth nodes in the economy. In this scenario entrepreneurship is part of the growth process, a mechanism of implementation, which could be interpreted as a causal agent. Entrepreneurs left so the second interpretation applies in this case.

The study started off with just the idea of a relationship between entrepreneurship and economic growth and had no concrete theoretical framework and subsequently adopted the GEM model as the theoretical framework though the GEM model has had its limitations (Acs et al, 2005; Rosa et al, 2006). The study concepts emerged as the literature was reviewed and data collected. Entrepreneurs were categorized as novice, habitual and corporate and the study settled on the habitual and focused on the large scale portfolio entrepreneur. Entrepreneurship was defined and operationalized. The operationalization led to categorizing of entrepreneurial activities into business start-up, jobs created, production of goods and services, tax contribution, infrastructure created and the multiplier effect of these activities.

In this chapter, the contribution of the leading portfolio entrepreneurs in Uganda to growth in the economy is assessed. The characteristics, behaviours and motivations for start-up of the portfolio entrepreneur are also examined. As a result, this chapter deals with the following;

a) Entrepreneurial behaviour and motivation.
b) Entrepreneurial characteristics of respondents.
c) The contribution of selected entrepreneurs to economic growth in the economy, through the production of goods and services, and employment.
d) The contribution of the selected entrepreneurs to economic development through tax contribution, infrastructure and multiplier effect. The cases of entrepreneurs are selected to demonstrate the multiple effect.
e) Case studies of two (2) selected portfolio entrepreneurs. 23 portfolio entrepreneurs were interviewed. However, besides the interviews, a lot of data about these entrepreneurs' business is from secondary sources. Only two cases are discussed here because of the value of work.

7.2 List of the portfolio entrepreneurs studied

Chapter Five indicated how through theoretical sampling 30 large-scale portfolio entrepreneurs were identified and that finally the study ended up with only 23.

Table 7.1 Major areas where Portfolio entrepreneurs operate

No.	Name of Founder	Major Sector	B	I	S1	S2	E1	C	P1	T	E2	F	R	F	P2	S3	G
1	Muljibhani Madhvani *(d)*	Food		√	√	√	√				√	√	√		√	√	√
2.	Kalidas Mehta *(d)*	Food	√	√	√		√					√		√	√	√	√
3	Armarli Karmali	Food				√		√	√	√	√			√	√		√
4.	Sudhir Ruperelia	Banking	√	√								√	√	√	√		√
5.	Karim Hirji	Hospitality	√	√									√	√	√		√
6.	Manzur Alam	Construction	√				√					√		√	√		√
7.	Gordon Wavamunno	Transport	√	√			√		√	√		√	√		√		√
8.	Amos Nzeyi	Beverages										√			√		√
9.	M. Bagalaaliwo	Beverages	√	√						√				√	√		√
10.	Mohan Kiwanuka	Paper							√			√	√		√		√
11.	Shukla Mukesh	Aluminum					√							√	√		√
12.	B. M. Kibirige	Hospitality					√		√				√	√	√		√
13.	Group of Individuals	Publications						√							√		√
14.	J. Mulwana	Chemicals						√	√				√	√	√		√
15.	C. C. Sembule	Steel	√	√			√	√							√		√
16.	C. Okeny	Chemicals						√	√						√		√
17.	Mariam Luyombo	Education													√		√
18.	Aga Sekalala	Agriculture						√	√						√		√
19.	Kaddu Kiberu	Chemicals		√									√		√		√
20.	Michael Mukula	Misc.								√		√	√	√	√		√
21.	Ahmed Nsubuga	Trade								√	√		√	√	√		√
22.	K. Kiwanuka	Property								√					√		√
23.	J. W. Kiwanuka	Insurance								√					√		√

Source: Primary Data in the year 2004 *(d) – Deceased*

Key:

B=Banking	*C=Chemicals*	*R=Radio/T*	*I=Insurance*	*P1=Plastics*	*F2=Forex*
S1=Sugar	*T=Transport*	*P2=Property*	*S2=Soap*	*E2=Edible Oils*	
S3=Steel products	*E1=Engineering*	*F=Cut Flowers*	*G=General Merchandise*		

The entrepreneurs listed in Table 7.1 have a major sector in which they are identified. The Table also summarizes the major areas where they have either had a business or continue to play. Because some of them have over 20 different businesses, the table is not exhaustive.

7.3 Characteristics, motivations and uniqueness of selected portfolio entrepreneurs

This chapter deals with, the entrepreneurial activities of portfolio entrepreneurs who have been prominent in the revival of the Ugandan economy. Their prominence raises questions about who these people are, what motivates them, and whether there is anything special about them that makes them stand out. Is there anything special or unconventional in the way they operate? What motivates them to enter or exit an industry?

In the literature, numerous words are used to describe entrepreneurs. They are frugal, quick to learn, creative, take risks, strong need-for-achievement, energetic, alert, flexible, brave, cunning, usually first-borns, have attained higher level of education, and are predominantly male (Kilby, 1971; Say, 1924; McClelland, 1961; Chell, 1990; Gupta and Srinvasan, 1995; Vespere, 1998). A distinction was made between traits/ characteristics and behavior in the literature, but there is some overlap in the discussion. Drawing from these generated descriptions of entrepreneurs, what is unique about the portfolio entrepreneurs studied in the Ugandan context? Below are the characteristics of the portfolio entrepreneurs studied, that is, age, sex, educational standard attained, position in family, marital status, religion, and ethnic background. Section 7.3.2 and 7.4 look at what motivates them and discoveries about motivation in Section 7.9.3. In Section 7.9.4, we examine how they operate which makes them stand out.

7.3.1 Characteristics of portfolio entrepreneurs studied

7.3.1.1 Age of respondents

Table 7.2: Age of Portfolio Entrepreneurs

Age Category	Male	Female	Total
21 – 40	-	1	1
41 – 60	13	-	13
61 – above	6	-	6
No Report	3	-	3
Total	**22**	**1**	**23**

Source: Primary Data

At the time of the survey, most of the entrepreneurs studied were above 45 years. However from their histories, their entrepreneurial activity started in their early twenties. This is in keeping with the findings by Birley and Westhead (1994), Kolvereid and Bullväg (1993), that portfolio entrepreneurs tend to start business at a young age. Successful portfolio entrepreneur with reasonable size in terms of number of companies therefore are likely to be about 45 years and above. They start early in their lives. In this group a few had inherited family businesses.

7.3.1.2 Sex and educational level of respondents

In the sample of 23 portfolio entrepreneurs of national importance, only one was female. Rosa and Hamilton (1994) and Scott and Rosa (1996) point out that women tend not to diversify into separate businesses at the same rate as men do. The reasons for this are uncertain, yet women make excellent entrepreneurs but are uncommon among portfolios. This study confirms this and findings by Donckels *et al* (1987) and Westhead and Wright (1989(b)). In the study this re-affirms the view that women are unlikely to diversify.

Table 7.4: Educational Attainment and Sex

Education level	Male	Female	Total
Masters Degree	5	1	6
Under graduate degree	1	-	1
Diploma	2	-	2
A- Level	1	-	1
O – Level	1	-	1
Below ‘O’ Level	9	-	9
Didn’t Report	3	-	3
Total	**22**	**1**	**23**

Source: Primary Data

Contrary to findings by Kolvereid and Bullväg (1993), Storey (1994), that successful entrepreneurs have attained higher level of education, 18 out of 23 had not been to University. Nonetheless, not many studies have established this relationship. Other studies have brought the concept of human capital. This is the knowledge and experience of the entrepreneur. Examining the concept of human capital in respect of portfolio entrepreneurs, Ucbasaran *et al* (2003) concluded that it was an important trait of habitual entrepreneurs. Human capital is the resource endowment and acquired experience of an individual. While those portfolio level entrepreneurs studied do not have high levels of educational attainment, it is evident that they have accumulated sufficient business experience in their lifetime that gives them abilities to start and manage businesses successfully compared to other entrepreneurs. All the interviewees had a long time of business experience. This human capital is re-inforced by social networks *(see Section 7.6)*

7.3.1.3 **Position in the family**

The literature indicates that most entrepreneurs are first-borns however, in the study of the 23 only one was a first born. This does not reflect the commonly agreed view. This is contrary to the evidence by Petrof (1980); Mancuso (1984) and Hisrich (1985) that entrepreneurs tend to be first-borns because they are under pressure to lead and be role models for the rest of the family.

Table 7.5: Position in Family

Position in Family	**Male**	**Female**	**Total**
First born	2	-	2
Middle	17	1	1
Last Born	-	-	-
Dint Report	3	-	3
Total	**22**	**1**	**23**

Source: Primary Data

7.3.1.4 **Ethnic Background of respondent**

Different studies, Jones and McEnvoy (1986), Chell (1985), Kumar (1990), Stanworth and Curran (1976) support the view that minorities or socially marginalized migrants tend to behave in an entrepreneurial manner because of their circumstances.

Table 7.6: Ethnic Background

	Male	**Female**	**Total**
Ugandan Asians	7	-	7
Indigenous Ugandans	15	1	16
Total	**22**	**1**	**23**

Source: Primary Data

In the sample, seven out of 23 of the portfolios are Ugandans of Asian descent and they lead the table as the largest portfolio entrepreneurs in the country. Most Ugandan Asians came into the country in the late 19th century primarily as labourers to build the Uganda Railway. Others came as business people to trade. A World Bank mission to Uganda in 1961 reported that they were mainly involved in trade with the exception of a few who were in manufacturing like the Madhvani and Metha families. At the time they were expelled from the country in 1972 by Idi Amin, the Asian Community controlled the trade sector in the economy. Various studies attribute the success of the Ugandan Asian then to ethnicity or minority and social marginalization (Mamdani, 1996). Since it was a small group, about 50,000 out of a population of ten million, they did not fit into the mainstream society and tended to segregate themselves from the rest. Their success then tends to conform to the social marginality thesis (Chell, 1985), that was the period up to 1972. Thereafter, a new business group emerged of indigenous Ugandans. A few of them who emerged immediately are among the group studied (Wavamuno, Mulwana, Kiwanuka, Kibuuka, Sekalala). However, along with these, a few Ugandan Asians who remained behind also emerged (Karim and Mukwano). Their success like many others is however in the period after 1987.

Many Asians have returned to Uganda since the Museveni Government put in place conditions for their return especially by establishment of the Uganda Investment Authority. However, the portfolios who have succeeded are mainly those who either had successful business before 1972, Madhvani, Metha and Alam, and or who largely remained behind, Karim and Mukwano. Going by the social marginality theory, the presence of this group and their leadership in business in the country is not a confirmation of this argument.

However given Uganda's business history where the Ugandan Asians dominated business for a long time, it is remarkable that 16 of the portfolios identified were not of Asian origin. This is against the popular view of migrant or minorities dominating business and also against what was happening before the migrant community was expelled in 1972. This tends to make the issue more complex than it looks. Another important feature that emerged from the interviews was that 14 out of the 23 respondents came from very poor family backgrounds, some with repressive parents. This is in agreement with the social marginality thesis.

7.3.1.5 **Religious background of respondents**

Uganda's population is predominantly Christian with over 82 percent of the population. Moslems, Hindus and other religions are a minority. However, of the 23 cases, 15 were from the minority religious communities. Again this confirms the social marginality theory and is a possible explanation for the success of these portfolios. However, it is contrary to Webers protestant work ethics.

Table 7.7: Religious Status

	Male	**Female**	**Total**
Moslem	10	1	11
Hindu	4	-	4
Christian	8	-	8
Total	**22**	**1**	**23**

Source: Primary Data

7.3.2 **Portfolio entrepreneurs and their motivation for start up**

The literature distinguishes between traits and behaviour. Whereas traits are usually specific to a person, behaviours are not and can be learnt. Among the behaviours we studied which appear in the literature (McCelland, 1961, 1965; Vespere, 1981; Casson, 1982; Drucker, 1985; Chell, 1991; 1995) are: initiative, creativity, imagination, risk taking, innovation, independence, need for achievement and leadership.

Table 7.8: Behaviour of Portfolio Entrepreneurs

	No. of Respondents	Very High	High	Medium	Low	Very low	No Response
Independence	23	0	12	3	2	1	5
Risk Taking	23	1	5	11	1	2	3
Initiative	23	7	4	6	4	1	1
Innovation	23	2	4	10	4	3	0
Leadership	23	0	2	8	6	3	4
Need for Achievement	23	8	5	3	2	1	4

Source Primary Data

Motivation on the other hand is the drive, what drives a person to do something. What is it that drives people into a specific behaviour. In this discussion these are combined because the issues are interrelated. The start-up of a business is called many things in the literature. Others call it business start–up, others call it entering an industry. It also involves buying or taking over an existing business or seeking self employment (Storey, 1994; Mueller, 1992). Wright *et al,* (1997) indicate that the various studies about motivation for start-up brings out a diversity of reasons for start-up and that while it has not been possible to assert specific reasons within habituals, they argue that this diversity is prevalent among habitual entrepreneurs too. In the study of the leading Ugandan portfolio entrepreneurs, the common reasons why they started businesses were sought (Table 7.9).

Table 7.9: Motivations of portfolio Entrepreneurs

	Very high	High	Medium	Low	Very low	No Response	Total No. of Respondents
Opportunity	5	4	5	5	2	2	23
Need Achievement	7	5	6	3	0	2	23
Make Money	4	9	2	6	0	2	23
Prove oneself	2	6	2	7	2	4	23
Grow Big	2	6	4	6	2	3	23
Independence	0	12	3	2	1	5	23
Leadership	0	2	8	6	3	4	23

Source: Primary Data

From the indepth interviews with the portfolio entrepreneurs, what motivated them was picked to explain their behaviours. The entrepreneurs were also asked why they started businesses and they gave responses discussed below. Questionnaires (Appendix 4) were administered and only six were returned. These indicate motivations and other behaviours of the entrepreneurs. They are incorporated in the discussion below:

7.3.2.1 **Independence**

On independence 66 percent of the respondents rank high. This confirms findings of various studies (Collins and Moore, 1964; Gray, 1990) that persons who are entrepreneurial fear being dominated and have a high need to dominate themselves. To them, autonomy is of more interest than social status. They want freedom to create things (Lumpkin and Dess, 1996).

"I left the bank to run my own business because I felt I didn't want this routine of going to work everyday. I wanted to do my own things", *(*Mohan Kiwanuka).

"I wanted to do something of my own. I didn't want to be controlled", *(*Aga Sekalala).

*"The reason I started this business was to be my own boss. I also wanted to be independent. There were too many of us in the home and we were dependent on our father who was poor. I didn't want to be in that trap" (*B.M. Kibirige).

7.3.2.2 **Risk taking**

Risk is said to be many things including, fearlessness, self confidence, and optimism among others. The literature tends to suggest that entrepreneurs are risk takers (Baumol, 1986; Belgley and Boyd, 1987; Drucker, 1988; Sexton and Kihasarda, 1992). The following score confirms this. 73 percent of the respondents ranked moderate to high risk and 65 percent are moderate risk takes. This confirms conclusions by various researchers (Higgins, 1972; Kao and Stevenson, 1984; Timmons, 1986; Hisrich, 1986, Rosa and Scott 1999(a)).

"You have to weigh various things before you start a business. Whatever benefits will accrue from it will add to your existing

business in terms of value. Does it have cashflows? Don't jump into a business because you see other people in it. They have their reasons why they are in it", (Karim Hirji).

7.3.2.3 **Initiative**

Entrepreneurs are reported to be personalities alert to business opportunities, are proactive and innovative. They take initiatives, (Chell *et al*, 1991; Storey, 1994). Initiative is said to be the ability to take the lead, to be at the front and think out new things. It is quickly seeing opportunity when it shows up. It is associated with imagination and creativity. Over 78 percent of the respondents scored above average on initiative with over 31 percent having very high initiative. This confirms Penrose's (1959) view that entrepreneurs must possess imagination to engage in opportunistic expansion.

7.3.2.4 **Need for achievement**

Over 84 percent of respondents scored highly on the need for achievement and only 16 percent were below average. There was one who was very low on this quality. Need for achievement is the desire to excel at something. Possibly to create a legacy in something. It is the need for personal achievement. Such persons tend to set moderately difficult goals and take well calculated risk to achieve them.

"I came from a poor family and I wanted to be better off" (James Mulwana).

“I came from a poor family and I didn’t want to be in poor conditions. I dread going back to poverty”, (Aga Sekalala).

“I had enjoyed a middle class family before but then my father became poor. I wanted to get out of that poverty. I didn’t want to be poor like my father” (Mariam Luyombo).

*“I was not satisfied with an orderly society (in the UK). I did not want to be like my father. I wanted to achieve more and be successful” (*Shukla Mukesh).

7.3.2.5 **Opportunity seeking**

Scott and Rosa (1996; 1999) concluded that owners of existing firms are significant source of new firms. Not only do they see opportunities but can risk exploiting several at a time, this highlights their importance.

Over 66 percent of respondents indicated they started business because they saw an opportunity to exploit and make money. This confirms Kirzner’s and indeed Drucker’s opportunity seeking behaviour of entrepreneurs.

“With liberalization of the market, I saw opportunity to make money from adverts” (Thomas Kato).

7.3.2.6 **Desire to make money**

> *"I wanted to do something that brought me money. My mother had told me to go and find something to do for myself to enable me live well"* *(*B. M. Kibirige).

Seventy five percent of respondents reported making money as one of the drivers while sixty percent sought growing big as an objective.

> *"I never wanted to be poor and I did not like to be like my father. I think my father was disorganized and failed"* (Mariam Luyombo)

7.3.2.7 **Leadership**

Seeking leadership scored 53 percent.

> *"My desire to be a head teacher led me to leave a school I was teaching in to start my own"* (Mariam Luyombo)

Most entrepreneurs did not talk about leadership directly but wanted to have leading brands or be leaders in a sector. Some of them talked about being market leaders as an objective. While the issue appeared confusing, it is clear they sought leadership of some sort.

7.4 Discoveries on motivation for start-up

For the first businesses, start-up reasons tend to fit in the usual entrepreneurial reasons for start-up Such as the need to achieve, desire for independence, desire to make money, etc. However, subsequent reasons have nothing to do with entrepreneurship. From the interviews some other factors which were not ordinarily in the literature emerged as motivation for start-up. These included the desire to compete with other portfolios, making one business a source of resources for another, capturing a market, and business accidents, among others.

a. For instance, two portfolio entrepreneurs competed in one industry and expansion in that business was a result desire to compete and be better than one another, personal competition was thus a motivation for subsequent expansion.

b. Many portfolio entrepreneurs established cut-flower (floriculture) business so that they have a source of foreign exchange without going into the bank. This was a result of the earlier perennial problem of shortage of foreign currency in the country. Seven of the 23 portfolio entrepreneurs in the study own cut flower business.

c. Similarly seven of the 23 portfolios (not necessary those in (b) above) in the study started a commercial bank or were major share holders in a commercial bank. One of them started a financial institution. The reasons attributed to this was to have a business to finance their core business following the problems of financing they had experienced before. They reckoned the process of applying for loans was cumbersome and in most cases very slow, so if they owned a bank they would be able to overcome some of these problems.

d. Again seven out of the 23 portfolios (not necessarily those in (b) and (c) above) either started a business or were major shareholders in an insurance business. The reason for starting the business was because as major importers, they paid high premiums for insurance of their activities. They saw this as an opportunity to make the money themselves. They developed captive market because they would insure their companies first.

7.5 Is there anything special about the way portfolio entrepreneurs operate

Large-scale portfolio entrepreneurs in Uganda rank very well with corporate organizations like Shell, MTN and Banks. This is evident from the list of large tax payers compiled by the Uganda Revenue Authority (see Section 7.10). The modern corporate organization has emphasis on professional management. Foreign owned banks in Uganda and indeed the telephone companies periodically change the chief executives and other key executives like those in charge of finance and operations. The professional manager operates on behalf of the shareholders. When Apple computers founded by Steve Jobs became too big, Jobs found it necessary to bring in John Scully from Pepsi Cola to professionalize management (Scully and Bryme, 1993). Professional management puts emphasis on strategic planning, formal organizational structures, formal decision making process, formal appointment of auditors and proper governance through Board of Directors.

Large portfolio entrepreneurs in Uganda with assets greater than those of multinational companies should therefore be operating like those formal corperates. As evident from their tax contributions (Section 7.10), job created (Section 7.9) and control a large section of the economy (Section 7.8). They have some corporate structure in place but these entrepreneurs override the structures and still take decisions directly. They do not need formal cashflow projections to start a business. They thus have a unique way of managing their businesses arising from the human capital they have accumulated and the social networks they have. They don't do things by the management books. For instance:

> *"I received an offer of US $3 million for my hotel. My feeling was that I had recovered the money I put in the hotel and it had value of about one half of what I was being paid. I accepted without hesitation. I made good money on that"* (Gordon Wavamunno).
>
> *I started the park (theme park) in memory of my mother. I know it doesn't make money"* (Karim Hirji).

Their motivation for start-up or exit of a business is not necessarily based on wider management techniques of evaluation and decision making. They have immense knowledge about economic conditions and about industries and because they have numerous businesses they have expenses many others do not have that enables them take investment or exit decisions. They are quick and save lots of money avoiding consultants and lawyers who are normally involved in formal planning and decision making processes.

7.6 Portfolio entrepreneurs' networks and succession planning

7.6.1 Portfolio entrepreneurs' networks

The portfolio entrepreneurs that were studied had been in business for over 10 years. Some of them like the Madhvanis have individuals in the business whose management experience and participation in business to date as far as 1950's. Mr. Manubhai Madhvani, in his seventies, was part of the group. Some of them started business in the 1960's, others in the 1970's and some of them in the 1980's (see table). These individuals have accumulated a wealth of knowledge which is referred to as human capital, Ucbasaran et al, (2008). But a more important resource is the network of people that they come to associate with over the years. These may be suppliers, buyers, bankers, government officials and other individuals whom they interact with now and again.

As a result of the established different companies, the entrepreneurs also established a network on the corporate grouping. This network binds the group together with some interdependence in some of the aspects especially finance and other areas depending on the group. For instance a group may recruit centrally or may market centrally. The network creates what is known as social capital. Social Capital is the benefits that emerge from the relationship among the different members of the network.

Business networks are indeed social network which are non-binding relationships among people who are connected for a specific reason. In case of business it may be for finance or profit making reasons. These networks are based on trust though are not binding. Unfortunately, there is no agreement on how to measure Social Capital and its impact on organization. However, what is true is that these networks create value in terms of support to network members.

For portfolio entrepreneurs, the support that emerges is in terms of addressing resource needs of the group. The study revealed that within the group of companies, the portfolio use the internal network to fund activities like expansion of business. They also use the external network to address business issues like who is selling what? And course structures of the different businesses.

7.6.2 Portfolio entrepreneur succession planning

In the interviews with the portfolio entrepreneurs, the study attempted to make a distinction between a family business and a corporate business. It emerged that these entrepreneurs were running family businesses. The discussions went into the issues of succession planning and what emerged from the study was that five of the portfolio entrepreneurs had succeeded in getting the second generation into management. One of the five was already in third generation management. There was a clear distinction between African and Asian Management styles. The Asian portfolio entrepreneurs had involved their family members in the business and had not involved women. On the other hand, the African entrepreneurs had involved their spouses and not their children except two of them. The interviews had revealed that six of the 23 portfolios were thinking of listing on Uganda's stock exchange and one of them had already set a date. The rest of the African owned businesses had thought of their businesses being succeeded either by their spouses or their children.

The continued role of the portfolio entrepreneur in an economy relies on the succession plans in place. In the study, the future of the portfolio entrepreneur businesses was assessed through their succession plans. Most of them were conscious and concerned about the future of their businesses and they had plans for succession mainly through take overs by family members. Five of the companies had already successfully transitioned to the 2nd and 3rd generation. Others had introduced children into management and a number of them were considering being listed at the local security exchange so as to diversify business ownership. However, in the interviews, it was noted that majority of the portfolio entrepreneurs were not willing to give up decision making to independent management let alone to their children

7.7 Portfolio entrepreneurs' contribution to the production of goods and services in the economy

7.7.1 Overall industrial growth

The respondents were guarded about data on production and sales in all the businesses. Secondary data was therefore collected to enable us make an analysis of their contribution. The Ugandan economy was in decline throughout the 1970s and early 1980s partly due to the expulsion of the then entrepreneurial Asian business community, departure of foreign managers, the poor macro economic policies and the unfavourable political economic conditions, among other reasons. The economy declined by about 25 percent between 1972 and 1980 and by 10 percent between 1984 and 1986 (Recovery Programme, 1980; Revised Recovery Programme, 1981; Background to the Budget, 1988/89). This is visible in production of selected groups of commodities in Table 7.10a.

Table 7.10a Index of Industrial Production 1981-1987 (Selected groups of commodities)

	1981	1982	1983	1984	1985	1986
Food	100	106.7	103.7	98.8	93.9	85.3
Drinks	100	48.6	59.8	79.4	84.8	82.2
Textiles	100	196.7	177.6	136.9	98.9	92.9
Steel	100	81.6	118.5	110.7	133.1	105.9

Source: *Uganda Bureau of Statistics*

Following the announcement of the free market economic policies of 1987, (Background to the Budget, 1988/89), entrepreneurial activity intensified as entrepreneurs responded to the opportunities that came in the wake of the policies and political stability that followed the years of civil war. Many new businesses were registered (see Chapter 6 Section 6.7.1.) Government also deliberately attracted foreign investors into the country who came to seize new opportunities (see 6.7.2). New industries opened up, old ones were rejuvenated and economic activity increased tremendously. Among the new industries that emerged are the mobile phones, FM radio stations, forex bureaus and information and communications technology, these have recorded tremendous growth (see chapter 8). The banking and insurance industries, sugar, beverages, steel industry among others, were rejuvenated.

The index of industrial production shows phenomenal growth in all sectors of the economy since 1987. Using 1987 as a base year, production in major selected sectors in the economy went up ranging from 113 to 450 percent by 1997 [Table 7.10(b)]. According to the index of major manufacturing establishment report by the Uganda Bureau of Statistics, only 19 establishments which are normally covered in their survey report, contribute 46.7 percent value added of the formal manufacturing sector of the country. Only nine products are included, namely sugar, beer, soft drinks, cigarettes, textiles, cement, laundry soap, edible oil and metal products. These sectors and products are largely dominated by the portfolio entrepreneurs as will be illustrated in the following subsection.

Table 7.10b Index of Industrial Production 1987-1997 (Selected groups of industries)

	1987	1989	1991	1993	1995	1997
Food	100	153.7	227.4	245.8	301.8	428.6
Drinks	100	143.7	176.1	170.9	308.5	398.5
Textiles	100	132.7	110.9	93.5	62.7	113.5
Steel	100	98.9	149.3	258.5	490.5	451.5

Source: *Uganda Bureau of Statistics*

7.7.2 Sectoral industrial growth

In this section, we assess the key sectors in the economy where growth was taking place. The role of the portfolio entrepreneur is ascertained especially in those sectors where the contribution is visible.

Table 7.11 Index of Industrial Production, Annual Group Summary 1996 – 2000 (Base 1987 = 100)

Group	No. of Est	Weight	1996	1997	1998	1999	2000
Food Processing	57	20.7	450.4	449.5	480.0	525.5	547.8
Tobacco & Beverages	14	26.1	370.7	399.9	453.2	471.4	450.2
Textiles & Clothing	13	16.3	47.7	115.4	117.7	118.1	95.8
Timber, Paper	27	9.0	554.1	526.0	599.3	645.9	595.0
Chemicals, Paint & Soap	25	12.3	509.8	776.4	929.4	1032.7	1086.8
Steel & Steel Products	19	5.3	480.7	522.0	518.8	552.3	492.1

Source*: Uganda Bureau of Statistics*

The above area shared tremendous growth and below some key portfolio entrepreneurs who played a role are identified.

Table 7.12: Key portfolio entrepreneurs in industrial production

	Sugar	Soap	Plastics	Radio /TV	Edible oil	Cut flower	Banking	Insurance	Forex	Steel
Madhvani	√	√		√	√	√		√		√
Mukwano		√	√		√				√	
Metha	√			√		√	√		√	√
Wavamunno				√		√	√	√		√
Karim				√			√	√		
Sudhir				√		√	√	√	√	
Kiwanuka				√		√				
Mulwana		√	√		√		√			√
Alam							√	√	√	√
Sembule							√	√		√

a) **Food processing**

The Madhvani's and Metha's are mainly in **sugar** production grouped under food processing. The Mukwano group also has a major presence in food processing largely in edible oil production. Production in the food processing sector went up by over 500 per cent in a period of 10 years from 1987-1997. Sugar production has specifically gone up by almost 4000 percent from 1987 See Table 7.14. It is significant to note that Kinyara is a government owned company though by the time of completition of the report, it had been sold to the private sector.

Table 7.14 Sugar production in tonnes

Year	1998	1999	2000	2001	2002	2003	2004	2005
Kakira	49,450	61,234	58,650	56,204	75,268	87,296	84,160	88,292
Kinyara	35,478	41,700	50,209	52,948	57,900	53,799	65,137	61,299
Lugazi	17,599	23,248	28,091	24,528	32,795	35,579	46,819	44,137
Total	102,527	126,182	136,950	133,980	165,963	176,674	196,116	193,728

***Source**: Primary Data*

The food processing sector has more portfolio entrepreneurs. A key player who owns a poultry said he started farming because he saw a problem of inadequate supply in **poultry products** *(a problem perceived as an opportunity)*. At the time, he entered the industry, the country's poultry farmers imported day-old chicks from different countries, Zimbabwe, Kenya, and Netherlands, among others.

"I used to import day old chicks like every other poultry farmer did. There was very little supply in the

market and no hygienically produced dressed chicken on the market either. Today, I have a monopoly over-day old chicks, it is no longer necessary to import them".

Today Mr. Aga Sekalala has the largest poultry farm in the country and supplies day old chicks to the majority poultry farmers in the country. He produces for his own farm consumption and supplies chicken feed to other farmers. He produces and supplies eggs, and supermarkets in the country stock dressed chicken supplied mainly by him.

b) **Beverages**

Soft drinks in the beverage sector were bottled by a Government parastatal under franchise from Pepsi Cola until when a local portfolio entrepreneur (Bagalaaliwo) got a franchise to bottle Coca Cola in 1987. Another portfolio entrepreneur (Nzeyi) bought out Government in the Pepsi Cola franchise in the early 1990s. Subsequently foreigners took shareholding in these companies. In ten years, production in the beverages sector (and tobacco) has gone up by about four hundred per cent (Table 7.11) *and the s*oft drinks specifically by over 1000 percent (Table 7.15). Coca cola is among the largest 10 tax payers in the country (see Section 7.10).

In the words of one portfolio entrepreneur, Sudhir Ruparelia,

> *"Beer was on very high demand and was sold on the black market. This shortage meant you could make money selling beer. I started by buying it locally but subsequently imported it from Kenya myself. I stopped selling beer because when local production was increased, Government banned imports, it was no longer as profitable because overtime the margins decreased as we imported more beer".*

Table 7.15: Index of Industrial Production (Selected commodities) Base 1987 = 100

Food & Tobacco	**No. of Est. Base**	**1996**	**1997**	**1998**	**1999**	**2000**
Sugar & Jaggery	4	2,656.2	2,941.3	2,956.6	3,609.2	3,915.8
Beer & Spirits	5	412.4	563.6	662.8	708.8	771.3
Soft Drinks	7	977.5	907.3	1,043.7	1,104.9	-
Bakeries	10	375	437	421	386.9	526.6

***Source**:* Statistical Abstract; Uganda Bureau of Statistics

This means that there was very little production of **beer** in 1985 and by 1989 when imports were banned, local production had tremendously increased. The entrepreneur knew when to exit the industry. Between 1987 and 2000, production of beer and spirits had gone up by over 700 percent (see Table 7.15). One of the two major plants (Nile Breweries) in the country was owned by the Madhvani group until recently when they sold controlling shares to a South African brewery (after the fieldwork was concluded). Beer is now produced in the country by big corporates with multinational connections.

c) **Chemicals**

This is another area that has grown tremendously with a presence of portfolio entrepreneurs. Four portfolio entrepreneurs operate in this industry (Mulwana, Mukwano, Kaddu and Madhvani). The industry grew by over 1000 percent in 15 years (see Table 7.11). **Soap** part of the chemicals industry, generally is a product whose production has increased tremendously. By 1986, soap was imported from Kenya. Production of soap has also gone up 1000 fold over the period 1987-2000 (see Table 7.16 and Table 7.18). Today Uganda exports soap to Rwanda and Congo. Soap is produced by Mukwano Industries and Madhvanis. A few other small producers were in the market. At the time of conclusion of the study, another largescale private company BIDCO had been licensed to produce soap among other products. Paint, a product in this industry, has gone up in production over the period 1987-2000 by 1700 percent. (Table 7.16 and Table 7.18). Paint is produced by Kaddu Kiberu a portfolio entrepreneur along with multinational companies.

Table 7.16: Index of industrial production 1987=100
Chemicals, Paint & Soap

	No. of Est	1996	1997	1998	1999	2000
Chemicals	3	544.8	494.5	856.1	958.5	505.3
Paint	5	1,030	1,244.8	1,266.4	1,827.5	1,696.1
Soap	11	479	732.1	838.5	962.6	1030.4

Source: *Statistical Abstract, Uganda Bureau of Statistics*

d) **Steel and steel products** have also gone up by over 500 percent Mehta, Madhvani, Alam, Wavamunno and Sembule. Table 7.11.and 7.12.

e) **Manufactured products**

In many other industries, there has also been phenomenal growth. Production of many **manufactured products** generally increased over the period as seen in Table 7.17 *and* Table 7.18. Some of the products in this list are in the items already considered above. Table 7.17 are goods produced by portfolios already mentioned, Mukwano, Madhvani, Bagalaaliwo, among others. Table 7.18 includes Wavamunno, Kiwanuka, Oscar, Kaddu, Mulwana, among others. Key players are portfolio entrepreneurs and corporates owned by multinationals.

Table 7.17: Production of manufactured commodities

	Unit	**1996**	**1997**	**1998**	**1999**	**2000**
Edible Oil & Fat	Tonnes	10,204	27,532	28,276	40,516	42,834
Sugar	Tonnes	96,569	103,213	102,667	126,936	22,2866
Sweets & Toffee	Tonnes	11	120	748	639	643
Uganda Waragi	'000 litres	560	606	210	250	350
Beer	'000 litres	64,158	88,352	108,760	106,364	126,092
Soft Drinks	'000litres	70,222	65,364	68,699	80,836	72,623

Source: *Statistical Abstract, Uganda Bureau of Statistics*

Table 7.18: Production of manufactured commodities

	Unit	**1996**	**1997**	**1998**	**1999**	**2000**
Foam Products	Tonnes	2,928	3,086	3,708	3,546	3,548
Spring Mattress	Number	-	521	743	684	864
Paper	Tonnes	59	-	-	-	-
Exercise Book	'000 gross	55	184	144	156	343
Paint	'000 litres	1,932	2,355	2,446	2,450	2,792
Soap	Tonnes	58,305	62,002	72,827	83,776	75,204
Jerry cans	'000 units	2,045	5,587	5,197	6,561	5,284

f) **The Services sector**

The service sector has many sub-sectors. However, broadcasting, forex and hotels are considered here. In the broadcasting sector, there was one

television station in the country in 1986. Today (2005) there are six. There was one **radio station**; today there are over 26 in operation and over 140 licensed. Portfolio entrepreneurs have played an important role in start-up and management of radio and television. Among the portfolios studied, the following own or have owned a radio station or TV station, Wavamunno, Sudhir, Kiwanuka (UNI), Karim and Madhvani. *(See Chapter 8)*. There were no **forex bureaus** in 1986. Today over 200 have been licensed although at the time of the study over 75 were operating. Many portfolio entrepreneurs own a forex bureau. Key among them are Mukwano, Sudhir, Metha, Shumuk, Karim. (*See chapter 8)*. **Large hotels** were owned by government and were dilapidated by 1986. Today many new big hotels have been built by portfolio entrepreneurs and some of those privatized were bought by the portfolio entrepreneurs under study. The hotels were rehabilitated and today offer excellent services. Key owners in the country are Karim and Sudhir.

It is clear that hundreds of goods and services that were not produced in the country or were in short supply are now available in plenty. Entrepreneurs have played a major role in business start-up and production of goods and services however, portfolio entrepreneurs have had a key and visible role.

Other than **textiles**, (Table 7.2[c]), where there has been a decline in some years, production in most items has gone up by between 400-500 percent over the last 18 years period. The role of portfolio entrepreneurs is thus evident and substantial.

This growth in production has numerous implications in the economy which impacts on economic growth. For production to take place and grow, businesses must be started, factories must be set up, raw materials are purchased, people employed and products are availed to consumers for consumption and satisfying a need. The country's GDP has grown tremendously over the years as a result of these activities which are largely attributed to the entrepreneur. The portfolio entrepreneurs who have multiple start-ups have had an important role not only in perceiving opportunities but also in causing the production and growth in the economy.

7.8 Portfolio entrepreneurs contribution to employment

An entrepreneurial activity that emerged from the literature and data analysis is job creation. Entrepreneurship is associated with employment, the creation and loss of jobs. Entrepreneurs themselves go into business for various reasons. These include among others, desire for independence, perceiving opportunities to make money or when they have no job opportunities elsewhere. The desire to do their own things may lead them to start a business and occupy themselves, they thus create jobs. The desire to exploit an opportunity may also lead to start-up, this too creates jobs. Absence of job opportunities also may lead to start-up, thus creating jobs. Besides, when they start the business and it grows, it creates in its wake other jobs. A phenomenon that was observed in the economy is the jobs created as a result of job losses. As government liberalized the economy and sold or closed industries, new jobs emerged. These jobs created are a reflection of growth in the economy, (Reynold and Maki, 1992; Mcteer, 1992; Storey, 1994). They emerge from the creative destruction process proposed by Schumpeter (1934).

In Uganda, and indeed in many other developing countries, Government has not been able to measure accurately the unemployment problem. The problem arises from a lack of records on self employment, the informal sector and production for the self-consumption economy. Besides, since the economic reforms were started in 1987, Government has been reducing the size of the civil services. State enterprises have been sold and they have shed off jobs. However, the economic reforms have also in the process created new jobs as many businesses start-up (Uganda Investment Authority Annual Report, 2005). This has resulted in growth in the economy as already seen, confirming the churn.

The Labour Force Survey Report (2003) published by the Uganda Bureau of Statistics indicated that the economically active population of the country was of people aged above ten years and this was 9,257,000 people. The distribution of these was as follows:

Figure 7.19: Active Population of the country 2003

Self employed		
Employees	0.3	
Own account	59.2	
Unpaid family	26.1	
Sub-total		**85.6%**
Paid employees		
Government permanent	2.8	
Government temporary	0.6	
Private permanent	2.0	
Private temporary	9.1	
Sub-total		**14.4%**
Total number	**9.257.000**	**100.0**

***Source**: Uganda Bureau of Statistics*

Over 85 percent of the people are self employed and the formal private sector has only 11.1 percent. The 85 percent can be said to be small entrepreneurs.

As earlier stated, the different large-scale portfolio entrepreneurs studied started business over different periods but the majority came to prominence in the late 1980s and early 1990s. These entrepreneurs have been instrumental in creating new jobs in the economy. Most of the new jobs created started in the late 1980 early 1990s. The Madhvani group returned in 1985 and found only 5,000 acres of sugar cane. At the time of the study, acreage had gone up to about 80,000 in the process they have added thousands of employees. Jobs in their different companies are now over 16,000. Mukwano employs over 4,000 employees excluding tea out-growers. Mukwano started retail operations in the early 1980s. They started their expansion and manufacturing operation in the early 1990s. Most of these jobs have been created in the last 16 years. The Ruparelia Group employs over 3,700. They started operation in the late 1980s. Imperial Group employs over 2,100. It is also a group that came to prominence in the late 1980s. Since growth is normally measured in terms of new jobs created, it is evident that there has been growth in the economy as a result of jobs created by these portfolio entrepreneurs.

Table 7.20 Contribution to Growth: Number of Employees 2004

No.	Name of Founder	Name of Company	Sector	Approx. No. Employees	
1	Muljibhani Madhvani *(d)*	Madhvani Group	Food	16,000	
2.	Kalidas Mehta *(d)*	Mehta Group	Food	6,000	
3	Armarli Karmali	Mukwano Group	Food	4,000	
4.	Sudhir Ruparelia	Ruparelia Group	Banking	3,700	
5.	Karim Hirji	Imperial Group	Hospitality	2,100	
6.	Manzur Alam	Alam Group	Construction	1,100	
7.	Gordon Wavamunno	Spear Group	Transport	1,400	
8.	Amos Nzeyi	Nzeyi Groups	Beverages	1,200	
9.	M. Bagalaaliwo	Coca Cola	Beverages	1,200	
10.	Kiwanuka	UNI Group	Paper	1,000	
11.	Shukla Mukesh	Shumuk Group	Aluminum	1,000	
12.	B. M. Kibirige	BMK Group	Hospitality	1,000	
13.	Group of Individuals	Monitor Publications Group	Publications	1,000	
14.	J. Mulwana	Nice House of Plastics Group	Chemicals	800	
15.	C. C. Sembule	Sembule Group	Steel	700	
16.	Okeny	Vita Foam Group	Chemicals	600	
17.	Mariam Luyombo	Taibah Schools	Education	450	
18.	Aga Sekalala	Ugachick Group	Agriculture	400	
19.	Kaddu Kiberu	Peacock	Chemicals	300	
20.	Michael Mukula	Mukula	Misc.	300	
21.	Ahmed Nsubuga	Nsubuga	Trade	200	
22.	K. Kiwanuka	Kisozi Ranchers Group	Property	100	
23.	J. W. Kiwanuka	Sure Group	Insurance	150	

Source: Primary Data in the year 2004 *(d) – Deceased*

Job Multiplier effect

The primary activity of a group of companies has other consequences in other industries and correspondingly on jobs. This is the multiplier effect. A group may produce a product and requires supplies of raw materials and also may require wholesalers and retailers. These are jobs created as a result of the action of one group.

Literature on entrepreneurship suggests that jobs may be created for push or pull factors. This is opportunity or necessity entrepreneurship. Portfolio entrepreneurs already have a business so they do not start subsequent businesses to seek employment. They therefore start business with other objectives other than self employment. The employment they create is both direct and indirect. Their activities create jobs and as they grow they create demand that creates additional jobs through the multiplier effect. This is discussed in Section 7.12 ahead. However, it is worth noting the job multiplier effect of some of the selected portfolio entrepreneurs.

The Madhvani group which is discussed extensively in Section 7.8 is primarily in sugar production. They have outgrowers (approximately 4000 at the time of the study) who supply them with sugarcane to supplement the company's effort. These outgrowers are in employment or business because they supply sugarcane to the Madhvani Group. They also create jobs as a result of their own activities. They engage people who tend and cut sugarcane. They also create jobs in the transport sector for those who carry sugarcane from private outgrowers to the Madhvani estate. Sugar, the main product, is a raw material for other industries and this also creates jobs.

The Ruparerlia group has interests in hotels, financial institutions, property and horticulture. All these have multiplier effect jobs. Mukwano has interest in edible oil, tea and has outgrowers for sunflower and tea estates. Sekalala of Ugachick breeds day-old chicks and also supplies feed for poultry farming.

Farmers buy them from him. He supplies dressed chicken and eggs to many supermarkets in town contributing to jobs in these places. He grows and buys vanilla which he processes and exports. There are thousands of farmers growing vanilla and they sell it to Sekalala.

Entrepreneurial activity of the portfolio entrepreneurs creates jobs that create incomes. This activity sparks off other businesses through backward (supplier) and forward (producers) linkages and in the process they contribute to growth in an economy.

7.9 Tax contribution of portfolio entrepreneurs to the economy

Tax paid to government may not appear as an aspect of relevance to economic growth. Governments operate as a result of taxes collected from business. Government expenditure contributes to investment and consumption and this drives growth. The fact that a company pays tax is a result of economic activity. Payment of tax therefore is an indication of growth. Taking 2002/03 fiscal year, the number of companies that contributed large amounts of tax were singled out for a special study by the Anti-Smuggling Security Unit of the Uganda Revenue Authority (URA) (Special Revenue Collection Report 2003). The URA, the country's tax collection agency, has a Large Tax Payer Department. The Department is intended to serve and keep track of these large taxpayers. Over 700 companies are listed in the study. The leading companies are primarily petroleum companies and they take up most of the first ten places. These oil companies contribute about 40 per cent of the taxes annually. Among the leading non-oil companies is MTN, a telecommunications company discussed in Chapter Eight of the study.

Since portfolio entrepreneurs have multiple businesses, their different companies appear separately in the list. Therefore the contributions of their different companies were aggregated to be able to ascertain the groups' contribution. When aggregated, the then Madhvani group took the lead among portfolio entrepreneurs and would be ranked 2nd in the country after Shell Uganda, a leading multinational oil supply company. At the peak of their business in the 1960s, the Madhivani Group which had over 70 different companies contributed about 10 per cent of the country's tax revenue (Fick, 2002). The contribution today is relatively less than what it was before they lost their empire in 1972. However, their empire still constitutes 23 companies (See Table 7.9(a)) and is growing.

Table 7.21 Tax Contributions by Portfolio Entrepreneurs 2002/3 Fiscal Year

Founder	Group	Amount of tax (Shs. Billion)	Position in country
Madhvani	Madhivani Group	72,500	2
Bagalaaliwo	Coca Cola	24,395	11
Karmali	Mukwano	22,597	12
Nzeyi	Pepsi Cola	7,191	24
Metha	Metha Group	5,574	30
Wavamunno	Spear Group	3,715	38
Ruparelia	Ruparelia Group	2,995	46
Karim	Imperial Group	2,937	47

Source: Special Revenue Collection Report 2003

The Mukwano Group of Companies ranked 12th. The companies between one and eleven are largely oil companies besides MTN, the telecommunication company. Coca Cola, whose franchise for Uganda was originally owned by

Bagaalaliwo, a portfolio entrepreneur (another portfolio entrepreneur from South Africa bought shares), ranks 11th. Wavamunno with interests in different sectors, ranks 38, the Metha Group of Companies, mainly in the production of sugar ranks 40, Sudhir Ruparelia 46, and Karim Hirji 47. These portfolio entrepreneurs compare well with big multinational corporations.

Table 7.22 Leading Tax payers in the country (Shs.'000 billion)

No.	Company	2002/03	Rank	2003/4	Rank	2004/5	Rank	2005/6	Rank
1	Shell (U) Ltd	85,741	1	78,735	1		2	105,505	2
2	MTN (U) Ltd	57,782	2	75,867	2		1	120,014	1
3	Uganda Breweries Ltd	53,100	3	60,576	3		3	70,055	3
4	Total (U) Ltd	45,344	4	54,102	4		4	46,207	6
5	BAT (U) Ltd	44,229	5	45,165	6		6	45.407	7
6	Caltex Oil (U)	43,825	6	46,331	5		5	47,460	5
7	**Nile Breweries Ltd**	36,948	7	38,875	7		8	49,593	4
8	GAPCO Uganda Ltd	26,991	8	26,760	10		15	21,431	17
9	Kobil	25,598	9	28,732	9		12	20,453	20
10	Petro (U) Ltd	25,456	10	24,503	11		9	30,704	11
11	**Century Bottling (Coca Cola)**	24,395	11	29,807	8		7	43,737	8
12	Uganda Electricity Distribution	20,704	12	15,770	16		18		
13	Hima Cement Factory Ltd.	20,140	13	17,514	14		14	24,902	15
14	Uganda Telecom Ltd	14,451	14	6,318	55		13	30,632	12
15	**Kakira Sugar Works Ltd**	14,282	15	15,087	18		21	29,019	13
16	Tororo Cement Industries Ltd	13,493	16	21,355	12		16	35,258	9
17	Standard Chartered	12,315	17	16,919	15		11	18,500	22
18	Roofings	11,944	18				17	23,078	16
19	**AK Oils and Fats (U) Ltd**	11,806	19	14,543	19			10,984	34
20	Kinyara Sugar	10,666	20	8,861	26		22	21,181	18
21	Uganda Revenue Authority	7,815	21	9,112	25		26	13,862	28
22	Jovenna	7,725	22	5,334	38				
23	Hared Petroleum Ltd	7,195	23	9,333	24		27	15,306	25
24	**Crown beverages Ltd**	7,191	24	2,954	66		31	9,976	37
25	Barclays Bank	7,099	25	10,037	22		24	13,995	27
26	**Mukwano Industries**	6,991	26	7,825	28		31	10,414	35
27	Uganda Electricity Generation Co	6,523	27						
28	Stanbic	6,495	28	20,013	13		10	22,206	10
29	Unilever	6,176	29	7,090	30		37		
30	National Water and Sewerage Co	5,908	30	6,237	32		33	10,214	36
31	MUC Subvention	5,262	31						
32	The New Vision	4,931	32	5,340	37		40		
33	**SCOUL**	4,805	33	8,140	27		29	12,341	31
34	Uganda Baati	4,684	34	5,538	35		35		
35	Bank of Uganda	4,540	35	2,973	64		46	9,847	38
36	Uganda Commercial Bank	4,435	36						
37	DFCU Leasing	3,954	37	3,182	59		51		
38	Interim Liquidation	3,924	38	5,783	33				
39	Uganda Electricity Transmission	3,598	39	5,472	38		30		
40	Bank of Baroda	3,370	40	4,321	46		53		

Source: *Compiled from secondary records (Actual data was not available for 2004/5 but the rankings were)*

This study was commissioned for a specific report and it was not possible to get similar data for subsequent years. In 2006 another report was published by the Uganda Revenue Authority showing the contributions of the different companies in the subsequent years. This list consisted of only 200 top tax payers by amount. The companies belonging to portfolio entrepreneurs whose individual contribution was not listed could not be ascertained. It was thus difficult to aggregate contribution of the portfolio entrepreneurs under study. Table 7.22 shows the 40 leading tax payers in the country and the companies owned by portfolio entrepreneurs are highlighted. The positions of the companies are shown.

Growth of tax as percentage of GDP

Globally, the ratio of total tax collections to a country's GDP ranges between 15-20 percent. At the time of initiation of Uganda's economic reforms in 1987, taxes were about 6 percent of GDP (Background to the Budget, 1988/89). At the time of completion of the study, the tax contribution was about 14 per cent of GDP (Background to the Budget, 2004/5). There had been considerable increase in the rate not only of the tax contribution but also of GDP. GDP had increased from US$3,672.88 million in 1987 to US$7,818.79 million in 2004 (Statistical Abstract, 1998; 2005). From the growth in total tax contribution and growth of GDP, it means the contribution of the portfolio entrepreneurs has correspondingly increased over the period.

As a developing country, with over 25 percent of the economy still non-monetized, the problem of tax collection, evasion and avoidance is still big. Not all taxes, even those from well established companies are being collected. One of the portfolio entrepreneurs interviewed admitted that both evasion and avoidance was a common practice among many business people.

> *"When you have a small business, it is easy to evade taxes. Nobody knows you so they don't pay attention to you. But as you grow big the cost of being caught including loss of business and image is greater than not evading. You lose business, trust, so it is not worthwhile. You are better off declaring everything."*

It is therefore possible that not all taxes due are being reported and collected even from portfolio entrepreneurs. Probably the actual contribution would be greater if they all paid what was correctly assessed as due from them. There are also investors given tax holidays as incentives to invest. The Uganda Investment Authority gives tax incentives to some investors who are attracted to the country. Their contribution is not recorded. The amount of tax compiled consists mainly of VAT, import duty and corporation tax. It does not include Pay As You Earn (PAYE) the income tax paid by employees of these companies. There are also other taxes paid to local authorities like trading licenses, parking and other taxes not directly included in this computation. This means that the tax contribution would be greater if all this was captured.

The country's total recurrent revenue collection has increased from a mere Shs.22.2billion in 1987/88 to over Shs.1.921trillion in the fiscal year 2004/5. The largest 40 taxpayers contribute over 60 percent of the tax on average per year. The contribution of portfolio entrepreneurs is about 20 percent. The first ten taxpayers have been largely oil companies with 30-40 percent.

Table 7.23 Tax revenue collection (Shs.'million)

Year	Amount
1988/89	22,262
1990/91	49,719
1992/93	137,225
1994/95	287,112
1996/97	531,194
1998/99	762,499
2001/02	1,212,349
2002/03	1,409,253
2003/04	1,642,770
2004/05	1,921,641

Source: Uganda Revenue Authority

7.10 Portfolio entrepreneurs contribution to infrastructure development

Ordinarily growth is seen in terms of jobs created and production of goods and services. However, creation or addition to capital stock items that come with entrepreneurial activity is also an indicator of growth. The creation of these capital stocks increases the productive capacity of a nation and also creates other economic activities of suppliers of the item and maintenance of those items. Kampala, the capital city of the nation has changed over the last 18 years. New buildings have come up in the Kampala skyline, old ones repaired and the housing stock in the country generally has grown substantially. Most new industrial and commercial buildings belong to portfolio entrepreneurs. About four portfolios control the major buildings in the Kampala city centre and the upper income areas of Kololo and Nakasero. From the study the infrastructure development by the portfolio entrepreneurs was captured as follow.

a) **Buildings**

Almost all the portfolio entrepreneurs have constructed buildings including factories, office complexes, hotels and residential houses for rent. The **Madhvani group** has rehabilitated their buildings at the estate. This includes factories, schools, hospitals and residences, they have added new buildings at their main plant in Kakira and have new buildings in most of the new businesses they have started. They acquired the Mweya and Para Safari Lodges and have rehabilitated them. They have tea estates in Central and Western Uganda where buildings have been constructed. **Mukwano** set up factories and has built shopping arcades in the city. Some of the best looking arcades belong to them. He has numerous commercial and residential properties in downtown Kampala and the residential suburbs of Kololo and Nakasero. He has tea estates in western Uganda where numerous buildings have been constructed. **Ruparelia** has built new hotels at Munyonyo and at Bukoto (Kabira Club). He reported ownership of numerous properties in the city and the suburbs of Kololo and Nakasero. **Karim** rehabilitated hotels in Kampala, expanded one in Entebbe and built a new one in Entebbe and a theme park in Kampala and is building another one in Kampala. He has also bought some of the big buildings in Kampala on premium sites, former Uganda Commercial Bank and the former Greenland Bank building. He also reported to have residential properties in Kololo and Nakasero. **Wavamunno** built a hotel in Mbarara (has since sold it), has buildings in downtown Kampala besides a big workshop in Nakawa industrial area. He has numerous residential properties lent out for rent. He also runs a training school within the motor repair workshop. **Kibirige** built the Hotel Africana, and has several big commercial buildings around the city besides the large number of residential properties for rent. He recently completed a $5 million dollar addition to the existing hotel. **Peacock** Paints has buildings in Kampala's industrial area and residentials for rent. **Kiwanuka** of Oscar Industries has factories in the industrial area and has refurbished several buildings in downtown Kampala and built new ones in other areas of Kampala including Kololo and Nakasero taken up for office and residential purposes. This addition to housing stock is a clear sign of growth.

b) **Equipment**

Most factories come with plant and equipment. The **Madhvani** have put new equipment in most of their factories here. At the time of the study they were expanding the main product line with an investment of US$50million. They were adding a new line to double production capacity of sugar and sugar products. They have added aircrafts to their air charter business. The **Mukwano** group is a recent development and has equipment to manufacture plastics, soaps, detergents, cooking oil. **Kibirige (BMK)** has road construction equipment and other equipment for hire. All **Karims'** hotels have been re-furbished with new equipment. **Kiwanuka** of Oscar Industries has equipment to manufacture exercise books and other types of stationery, hessian bags, and egg trays. **Wavamunno** has equipment to fabricate lorry bodies and buses. **Sekalala** has poultry processing equipment and maize mills and others related to poultry food production. Again this is addition to capital stock and an indicator of growth. This equipment creates a new wave of activity of maintenance besides creating primary employment.

c) **Roads and factory access**

The largest dual carriageway in the country from Jinja town to Kakira Sugar Works Factory about 14 miles *(three miles part of it in their private estate)* was financed by the **Madhvani** group in the 1960s. To date they open and maintain murram roads totaling to over 60 kilometers in areas surrounding their plantations where over 4,000 outgrowers have small plantations. This is besides the 40 kilometers of roads on their estate.

Roko Construction, owned by a prominent portfolio (though not studied), re-surfaced a city road leading to their offices in Kawempe – about a six miles stretch. **Wavamunno**, put an access on the hotel in Mbarara about half a mile, **Karim** has repaired the road of about two kilometers accessing one of his big hotels, and put an access to other hotels in

Entebbe. There are reports of different businesses coming together to buy materials for repair of common roads. Most new factories bring in their wake road repairs by developers. There are additions and improvements to capital stock and indicators of growth.

d) **Schools, medical facilities and others**

Many portfolio entrepreneurs make contributions to growth of communities where they live. They have contributed to building of schools, medical facilities, churches and mosques besides other things. The **Madhvani Group** built libraries in many secondary schools across the country. They have schools and hospitals on their estates. The **Metha group** in Lugazi also have schools on their estate. **Wavamunno** built a church and also contributed large sums for the construction of the Pope Paul Memorial Centre in Rubaga. He still contributes to schools and other societal activities. Most portfolios admitted they contribute to fund raising activities in the area where they stay in support of development of schools, churches, mosques and hospitals besides other social causes.

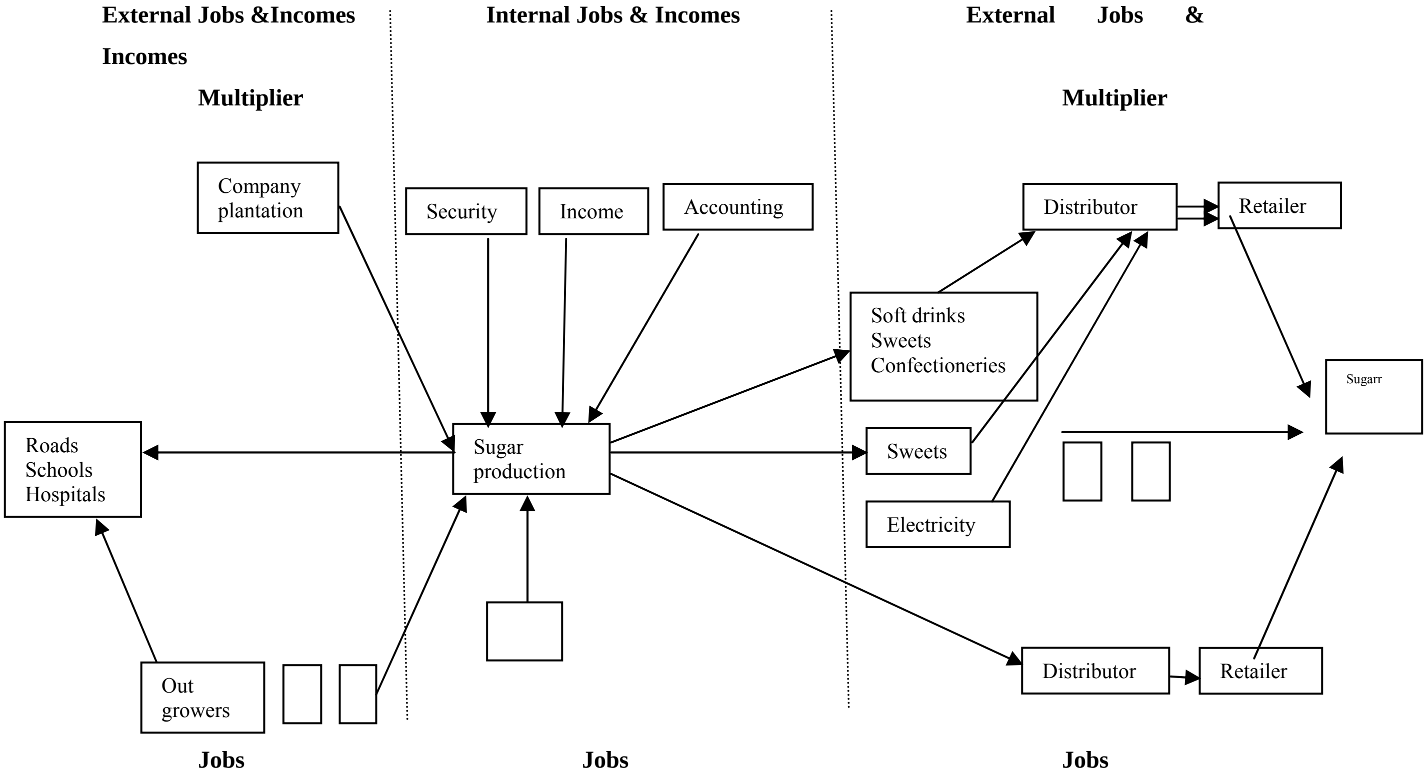
7.11 Portfolio entrepreneur's contribution through the multiplier effect

The direct contribution of portfolio entrepreneurs can be measured from their production, sales, jobs, profits and capital invested. However, they also make indirect contributions to growth arising from the multiplier effect. As earlier mentioned (7.9) the primary activity of the entrepreneur, be it production or sale or rendering a service has other economic consequences in other sectors and businesses. These may be in creation of new jobs, supply of raw materials or sale of product. This is the multiplier effect.

Starting up an economic activity creates a multiplier effect. The construction of buildings stimulates the construction sector creating jobs and other businesses. Cement, iron and steel, plumbing, electricals are all required and businesses are started from there. Running hotels, factories, stimulates a chain of suppliers of inputs. It is difficult to estimate the multiplier effect of the key portfolio entrepreneurs in Uganda especially given that agriculture and the informal sector play an important role and yet have no proper records. However, it is possible map out activities that result in multiplier effects in many other areas where portfolio entrepreneurs have a presence. Two cases are taken to demonstrate the effect, the Madhvani Group and the Imperial Group of Companies of Karim Hirji.

7.11.1 The Multiplier effect: Case of the Madhvani Group

Madhvani's primary business has always been producing sugar from sugarcane. He has over 80,000 acres of sugarcane and produces an average 80,000 tonnes of sugar per year. Outgrowers supply more sugarcane than that grown from his estate.



THE MULTIPLIER EFFECT

The Madhvani Group: Sugar production plant and the multiplier effect

a) Sugarcane outgrowers

The group does not grow enough sugarcane on their plantations so they outsource sugarcane from farmers in the neighbourhood of their estate. They encourage farmers in the neighbourhood to grow sugarcane. Madhvani's demand for sugarcane creates over 4,000 suppliers or businesses in form of outgrowers. These suppliers employ labour in the planting, weeding and harvesting of their sugarcane. At the time of harvesting, the outgrowers hire transporters to deliver their sugarcane to the Madhvani sugar factory. The demand for sugarcane by Madhvani creates new businesses and jobs for suppliers whose activities also create jobs in turn.

b) **Transport sector**

Additional businesses and jobs are created in the transport sector as trucks are hired to deliver sugarcane. Trucks create demand for petroleum products, creating additional jobs in the oil industry. Increased demand for petroleum products also creates its own jobs in the oil sector, with transporters, and also the management of the oil sector itself as demand goes up. Sugar is produced almost throughout the year and sugarcane is transported from different outgrowers also throughout the year. Thus additional jobs are created throughout the year as a result of demand for sugar.

c) **Road network**

The Madhvani group maintains the road network in the outgrowers areas. Over 60 kilometres of roads outside their estate are maintained and another 40 kilometres within their estate. This creates jobs for the road maintenance operators, creates demand for fuel and its attendant jobs in the oil sector. It creates demand for road maintenance equipment and additional demand for the maintenance activities of the equipment. These are jobs and economic activity arising from sugar production.

d) **Sugar by-products**

The production of sugar is a result of crushing sugarcane which gives the main product sugar but also has by products, baggasse and soil waste. Baggasse is the waste product from sugarcane. There is also another by-product in much smaller quantity which is the soil particles that result form cleaning the sugarcane. The soil particles are turned into fertilizers which are then taken back to the sugar plantations. This creates another product which has additional job potential.

e) **Electricity generation and water supply**

Because the baggasse is so much, its disposal became a problem. It was initially used as a fertilizer but required treatment before it could be used. It is now used to generate electricity. The electricity from baggasse along with that produced from the mini hydro plant by the lakeside is more than what they can use in their industrial empire.

The electricity is used to run the factories including the sugar, soap, cooking oil, and sweets factories. It is also used to light up the housing estates, Schools, a hospital and two health centres. The excess of what they produce is fed into the national grid and sold to the national power company. Plans are underway to produce up to 30 mega watts of electricity to supply to the national grid.

The generation for electricity therefore creates jobs in that sector so is the demand for water. Because of proximity to water resources, the group has always provided its own water supply. Jobs have been created in these sub-sectors as a result of producing sugar.

f) **Sugar as input to other businesses**

Madhvani now produces over 85,000 tonnes of sugar every year. National production is about 190,000 tonnes (Statistical Abstract 2001) from a total of three sugar plants in the country. Sugar is a basic essential product used in homes for everyday use. It is also a raw material for other products. The transportation of sugar from the factory in Kakira to distributors naturally creates jobs. Distributors themselves are employed and they also employ other transporters who deliver to retailers. There are thousands of small and big businesses selling sugar everyday. They make a living from this activity. Packaging for sugar is also another economic activity that emerges.

There are also other products which use sugar as a raw material. The products of sugar lead to other businesses. There is a sweet and confectionary division in the Madhvani Group using sugar as a raw material. This employs people and the production has consequences in the transport sector, distribution and retailing. Other industries including soft drinks, confectionary among others use sugar as input into their activities.

g) **Security business**

With over 80,000 acres of plantations, security became a problem. The group started a security company to ensure that all its business premises and estate are secure. This has turned into a separate registered business and now the company also avails service to other companies outside the group. Hundreds of jobs emerge from this activity.

h) **Development of other areas through labour import**

The company's peak performance was in the late 1960s just before Idi Amin took over the country and led the country into economic decline. At the time, the group was labour intensive compared to what it is now. It had over 20,000 workers at its industrial estate. There was not enough manual labour in the immediate neighbourhood so it used to import labour from Rwanda, the neighbouring country and from Arua within the country. These labourers would be employed for two to three years and then taken back. This continues today although to a limited extent and only from Arua. The group thus benefits areas not even close to it by giving people jobs and incomes.

i) **Housing estates**

Because of the large number of employees, the group built labour camps and other housing estates for lower, middle and top management levels. The labour camps are basic facilities of two roomed houses for sugarcane cutters and for the higher echelons in management, houses are available. This created a construction section with continuous construction and maintenance activities. Families are supplied with electricity and water. This activity creates jobs in the construction industry.

j) **Schools and health facilities**

The group has four primary schools, two secondary schools and a technical institute. The thousands of families at the estate have school going children at different levels. Even families bordering the estate send their children to these schools. Schools employ teachers and other workers and create demand and jobs in the scholastic materials industry, food supplies and other related jobs.

The group also has a hospital and two health centres for employees. Doctors, nurses and other healthy workers are employed. The pharmaceutical industry supplies drugs to these medical establishments' thus creating jobs in that sector.

7.11.2 Multiplier effect: Case of Imperial Group of Companies

The Imperial Group of Companies is mainly in the hospitality industry. The owner has since constructed another five hotels located in both the capital city

Kampala and in Entebbe. One of them, the best in the country. He also has the biggest amusement park in the region on a 17 acre piece of land.

a) **Employment**

The group directly employs about 1,700 people in different professions. The group interests include trade, property, insurance and financial services besides the visible hotels and an amusement park. The jobs created include, chefs, waiters, housekeepers, cleaners, accountants and others. The hotel services include restaurants, bars, accommodation, business services and leisure facilities. Other businesses have jobs in marketing, accounting.

b) **Agricultural sector**

Restaurants serve meals and drinks. The inputs for restaurants include local foodstuffs supplied by different people. Foodstuffs include matooke, beans, cabbages and a variety of others. The hotel keeps a list of suppliers of these foodstuffs. These suppliers reported that they buy the food stuffs from the wholesale food markets which take place every morning in major markets around the city and in major towns. In these markets, farmers deliver their produce over night on trucks and pickups to wholesale dealers who either sale them in bulk or retail them.

Demand for food stuffs in the hotels every day creates jobs in different sectors, food distribution, storage, transportation and farming sector. All these sectors employ others creating additional jobs and incomes.

c) **Beverages sector**

In the bars, there is demand for soft drinks, beer, wines and spirits. The beverage industry supplies these items and this creates jobs in the transport sector and beverage sector. In the beverage industry, there are also suppliers of different inputs, water, concentrates, barley and other inputs. Thus a drink served in one of the hotels in Kampala creates jobs in other sub sectors.

d) **Utility sector**

Accommodating a person has consequences on water, laundry services, soap/detergent industry, air conditioning and electrical and plumbing sectors. Water is supplied to a hotel, create jobs in the sector. Laundry services are used and this creates jobs. There is demand for soap, detergents and cleaning materials. Demand for these products creates jobs in those industries.

e) **Maintenance sector**

The maintenance sector, electrical and plumbing sectors are required more frequently when operating a public hotel. Repairs are made on a continuous basis creating for demand and jobs in the hardware and construction sectors.

f) **Business services**

Business services include phone, fax and internet facilities. Conferences, seminars, board meetings are held in these facilities creating demand for food, water and other related services discussed above.

Leisure facilities like gyms, swimming pools, pool tables also exist giving rise to jobs from different professionals calling for inputs or equipment that is bought elsewhere. This creates jobs.

g) **Shopping arcades and office space**

The Imperial Group has five big hotels in the country and is the single largest provider of hotel facilities. The hotel facilities have shops for rent by other businesses. One hotel has 40 shops, while another has 37. This creates space for other businesses to operate. Shops are located at the different hotel facilities of the Imperial Group. Recently the group acquired one of the biggest buildings in town with a prime location. The building formerly a bank which has since relocated, was turned partly into a shopping centre with hundreds of shops. The building also has hundreds of office space. The group has other buildings it lets out in down town.

h) **Tourism**

The availability of good hotel facilities has also encouraged other business in the country, tourism is one business sector that has been influenced. Hotels have attracted local and international meetings and conferences. Tourism development largely depends on availability of tourist facilities. A key factor is accommodation. With the number of beds increasing as a result of these hotel facilities, so has the growth of tourism. Uganda used not to host international meetings due to absence of first class conference facilities. Today, numerous international meetings take place in the country. Tourism has other multiplier effects. It creates demand for forex services, and food, transport including air travel among others.

In aviation, visitors arriving through the airports create jobs as there must be people to attend to them in aircraft handling, customs and immigration. The transport sector gets jobs. The petroleum and oil sector gets jobs as more people are transported to and from airports, game parks and other tourist attractions.

The Imperial Group has interests in other businesses; insurance, financial services, radio stations, television stations among others. All these have jobs and other attendant benefits through the multiplier effect.

7.12 Case studies of the overall contributions of selected portfolio entrepreneurs

So far the analysis has highlighted areas of contribution to economic growth and development. These areas although treated separately, are interrelated. Moreover the full depth of the contributions of all the portfolio entrepreneurs cannot be adequately described. It would require to examine all the companies individually to record the production and or sales figures, capital investments, jobs created and the impact the organization has on the immediate society.

Madhvani Group of Companies (Year 2004)

Table 7.24 Profile of the Madhvani Group of Companies

<table>
<tr><td>1</td><td>Founder</td><td colspan="6">Muljbhai Madhvani – deceased</td></tr>
<tr><td>2</td><td>Year of founding</td><td colspan="6">1927</td></tr>
<tr><td>3</td><td>Motivation for start-up</td><td colspan="6">Desire to improve oneself</td></tr>
<tr><td rowspan="2">4</td><td rowspan="2">No. of companies</td><td colspan="6">Upto 70 before 1972</td></tr>
<tr><td colspan="6">Now 23 in 2004</td></tr>
<tr><td rowspan="2">5</td><td rowspan="2">No. of employees</td><td colspan="6">Direct - 12,000</td></tr>
<tr><td colspan="6">Indirect - 4,000</td></tr>
<tr><td rowspan="7">6</td><td rowspan="7">Major products/ services</td><td colspan="2">Sugar</td><td colspan="2">Packing materials</td><td colspan="2">Aircraft maintenance</td></tr>
<tr><td colspan="2">Confectionaries</td><td colspan="2">Insurance services</td><td colspan="2">Construction services</td></tr>
<tr><td colspan="2">Cutflowers</td><td colspan="2">Security services</td><td colspan="2">Real estate</td></tr>
<tr><td colspan="2">Hotel services</td><td colspan="2">Tea</td><td colspan="2">Product distributors</td></tr>
<tr><td colspan="2">Computer software</td><td colspan="2">Glass</td><td colspan="2">Electricity</td></tr>
<tr><td colspan="2">Soap</td><td colspan="2">TV series</td><td colspan="2">Cooking oil</td></tr>
<tr><td colspan="2">Steel products</td><td colspan="2">Air Charter</td><td colspan="2">Water</td></tr>
<tr><td>7</td><td>Tax contribution 2002/3</td><td colspan="6">Ug.Shs.7.2billion
No.2 in the country in that year as a group</td></tr>
<tr><td rowspan="4">8</td><td rowspan="4">Infrastructure</td><td colspan="3">Sugar plantations</td><td colspan="3">Scholarship fund</td></tr>
<tr><td colspan="3">Roads</td><td colspan="3">Hospitals</td></tr>
<tr><td colspan="3">Schools</td><td colspan="3">Factories</td></tr>
<tr><td colspan="3">Buildings</td><td colspan="3">Equipment</td></tr>
</table>

Source: *Primary Data*

This would be a great amount of work to cover the 23 entrepreneurs. For these reasons two case studies are highlighted to provide more holistic and integrated insights. The two cases selected are of Madhvani group and Wavamunno group. These are some of the few for which information is the most complete.

a) **Founder: Muljbhai Madhvani (Deceased)**. The group is currently run by a son and grandson of the deceased as Joint-Managing Directors. Second and third generation entrepreneurs.

b) **Motivation for Start-up**

This could not be firmly established because the current ownership is second and third generation but from stories narrated by current ownership/management records, it was a desire to improve one self and get out of poverty.

c) **Brief Background**

The founder of the Madhvani group started off with a sugar jaggery in 1927 and led to the development of the biggest private sector empire not only in Uganda but in East Africa. The company collapsed after World War II but was revived in the 1950s and by 1970 the group contributed about ten percent of Uganda government's revenue through corporate and excise taxes (Fick, 2002). At that time, the group employed over 20,000 people and provided free primary and secondary education for children of its staff. The leadership of the business was taken over by one of the sons, Jayant Madhvani, at the death of the founder in 1958. Jayant died in 1971. Jayant along with his brother Manubhai (still alive) were responsible for the phenomenal growth of the business in the 1950 and 1960s. The group is now managed jointly by a young brother of Jayant, Mayur Madhvani, and a son of one of the brothers to Jayant, Kamlesh Madhvani (son of Manubhai Madhvani) i.e. second and third generation.

The Madhvani group interests in Uganda are principally represented by the Kakira Sugar Works, based 11 miles out of Jinja town. Jinja was up to 1975 known as East Africa's industrial town. This was because of the numerous industrial establishments, many of which belonged to the Madhvani Group. Kakira Sugar works is the flagship company for the group and has five divisions, sugar, tea, sweets, soap and flour milling. The other group of companies is managed under another holding company Muljbhai Madhvani Co. Ltd., Kakira Sugar works Ltd and Muljbhai Madhvani Co. Ltd. are the holding companies that have shares in most of the other companies the group owns. These two are held by East African Holdings, a company registered in Bermuda. Kakira Sugar Works Ltd is the most visible, though the public still knows the business as Madhvani and is known primarily for production of sugar. It supports about 4,000 outgrowers with more acreage than what the company has on its own plantation. The factory expansion has gone hand in hand with upgraded co-generation of electricity from excess baggase. Thirty megawatts are soon to be generated and channelled to the national grid.

The company saves up to US$40 million on sugar imports annually. The factory and plantations have been rehabilitated over the late 1980s and early 1990s. The expansion of the factory capacity to 6,000 tonnes of cane per day is almost complete. This will require the expansion of the outgrower scheme to encompass 6,000 farmers. It will also mean increased economic opportunities and prospects for the population in the south Busoga region where the company is located.

d. **Number of companies**

While sugar is the flagship, the Madhvani group has interests in different industries. These include confectionaries, steel, insurance, aviation, flowers, tea and security among others. It is essentially organized under the major companies which own the others. This is the East African Holdings which is the main holding company of the group and the Muljbhai Madhvani Co. Ltd besides Kakira Sugar Works Ltd. These two own shares in numerous companies both in and outside Uganda. At the time of the study the group had 23 different companies in Uganda. Before they were expelled from Uganda in 1972, the Group had over 70 companies. It had a wider product portfolio then with interests in clothes, electrical goods, among others. The group has numerous businesses outside Uganda including Kenya, Tanzania, Zambia, United Kingdom, Lebanon, among other countries

e. **Number of employees**

Kakira sugar works provides direct employment to over 10,000 people. The entire Madhivani Group has about 12,000 employees in the different companies. It has over 4,000 outgrowers who have more acreage under care than the company. They provide employment to sugar cane cutters, machine operators, accountants, insurance experts, lawyers, doctors, nurses and managers in their 23 different companies. There are multiplier effects of these activities briefly assessed in Section 7.12 above but could not put actual numbers to them because of resources and magnitude of the task.

f. Goods and services produced and offered by the group

i. **Major product: Sugar by Kakira Sugar Works (1985) Ltd**

The Madhvani Group's flagship in Uganda is Kakira Sugar Works. The sugar factory has a crushing capacity of 3,000 tonnes of cane per day, producing about 85,000 tonnes of sugar per annum. The factory is supported by 80,000 acres of sugarcane plantation and provides direct employment for 80,000 people. The company operates an outgrowers scheme which comprises of 4,000 farmers who grow 90,000 acres of sugarcane.

Table 7.25 **Production of sugar in Tonnes**

	1998	1999	2000	2001	2002	2003	2004	2005
Kakira	49,450	61,324	58,650	56,509	75,268	87,296	84,160	88,292
Total National Production	102,527	126,182	136,960	133,900	166,963	176,674	196,116	193,729

Source: Primary and secondary data

ii. **Confectionaries: Division of Kakira Sugar Works (1985) Ltd**

This is a product that uses sugar as the raw material. Madhvani dominated sweet production in the 1960s and early 1970s. Since then sweets have largely been imported. Production is just picking up and produces the following brands: TAM – TAM, Lollipops, fruit drops, cough drops, sugar tablets and safari toffee. Increased production of sweets is resulting from increased production of sugar. Sweets are currently imported from Kenya, India and China. The groups seek opportunity to outcompete these products because of the forward linkage but also importantly, the electricity used in the factor is generated locally and is cheap. This lowers cost of production.

Table 7.26 Sweet production

	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6
Production in Kg.'000	620	450	530	580	520	980

Source: Primary data

iii. **Tea Estates: Division of Kakira Sugar Works (1985) Ltd**

Producers of Tea. Madhvani tea consists of approximately 950 hectares of tea under production. Providing employment to

1,000 people it produces an average 800,000kgs of made tea per annum. The whole produce is for export through the Mombasa Tea Auction Market. This is a product the group used to produce in the 1960s and 1970s for export. The product generates export earnings for the group and competes favourably with other tea producers due to sank costs.

Table 7.27 Production of tea

	2002/3	2003/4	2004/5	2005/6
Production in Kg. (‘000kg)	750	1050	800	900

Source: Primary Data

iv. **Soap: Division of Kakira Sugar Works (1985) Ltd**

Soap is also one of the products produced under Kakira Sugar Works Co. The average production is 800 tons a month. Soap is one of the basic requirements of the community used on a daily basis. Because it is a consumer product, the margins on it are low. However, the company has an agreement with Uniliver a multi-national company to produce soap on its behalf. Uniliver outsources most of its products from small producers globally and it packs and distributes them. Soap production in the group is an activity that the group used to engage in because it was a cash generating business. Because the group produces electricity, it is able to produce soap cheaply and has the captive market of unilever.

v. **Edible oil and maize flour milling: Division of Kakira Sugar Works (1985) Ltd**

The old Madhivani Group was involved in production of consumer products which were seen as cash cows. Like soap, edible oils and maize flour are mass consumption products. Edible oil was produced from cotton seeds. At that time the Busoga region where the Madhivanis are located, was one of the highest producers of cotton. Management reported that given the imported oil, production of edible oils from their plants was not economically viable. The Kakira Sugar estate is however located in an area that grows a lot of maize. Therefore, the group continues to produce maize flour. Maize is a staple food in the country. The flour is also demanded more by urban and semi-urban population. The Kakira sugar estate with over 10.000 employees has a population of about 50.000 people. Since they do not have agricultural farms on their own, they have to buy food products and maize flour is one of the products. The group therefore, capitalized on this to produce a product for a captive market.

vi. **Cut Flowers: Kajjansi Roses Ltd**

Among the fastest growing industries that were started in the Uganda economy in the 1980s and 1990s was cut-flowers.

Many of the portfolio entrepreneurs went into cut-flower business. Management reported that entry into the cut-flower business was due to the decreasing trend in the coffee export business. Cut-flowers had emerged as an important product for export. Besides simply making a profit out of it, the liberalization of the economy had enabled exporters to retain their export earnings. Many portfolio entrepreneurs entered this business because they could earn foreign exchange and use it to import products of their choice into the country without having to go through processes of bank commissions and related costs. Cut-flower production is located near Kampala for export to Europe. The group has the earnings from cut-flower to meet its foreign exchange needs.

vii. **Packing materials: Mulbox Ltd**

Prior to the decline of the Madhivani industrial empire in the 1970s, production of packaging materials was one of the Group's key activities. In any growing economy, packaging is very important as the numerous goods produced must be packaged before they are distributed and sold. The group therefore, had identified the packaging as an area where they could make money. It is one of the industries that they revived. By the time of the study, MULBOX was the largest corrugated packaging unit in the country with over 30 years experience in cardboard and paper boxes. Its products are sold not only in Uganda but in Congo, Sudan, Tanzania, Rwanda, and Burundi.

viii. **Insurance products: East African Underwriters Ltd**

Among the industries that were identified as having growth in the economy were insurance services. The old Madhvani industrial establishment did not have banking and insurance as part of their business portfolio. However, in the new liberalized environment, the group had identified insurance as an area where they could start business. East African Underwriters was started with a view to capitalizing on the growing market but also to keep the money "home". The group has numerous businesses and by starting an insurance company, they were going to retain the money in the group.

The company provides both life and non-life insurance services. It operates two core divisions; Insurance solution Division and Life and Pension Division. Insurance Solutions Division offers a full range of general insurance products such as fire, theft, motor, marine, worker's compensation, and personal accident and public liability among others.

Life and Pension Division encompasses employee benefit products and retirement benefit fund management.

Underwriting of non-life insurance commenced in 1995, while life and pensions business was introduced in 2003.

Table 7.28 Insurance Premium

	1998	1999	2000	2001	2002	2003
EAUL	1,654	1,658	1,616	1,787	2,852	3,642
Industry Total	29,248	31,544	34,830	47,046	49,913	59,856
Percentage of EAUL	5.6%	5.2%	4.6%	3.7%	5.7%	6%

Source: Primary Data and Uganda Communication Commission

ix. **Security services: Industrial Security Services Ltd.**

Because of the nature of the economy, most businesses require security. The Madhivani Group has the basic business at the Kakira Sugar Works Industrial estate. The estate is over 80.000 acres and has sugarcane and other properties. The group has also got various properties and businesses in different parts of the country. They saw a need for a business that could be responsible for security. They thus established a security company that provides in-house services to its big estate and hundreds of properties. The company also offers these services to outsiders at a cost. It is thus a profit centre.

x. **Aircraft maintenance: Turbo Prop Service Centre Ltd. (TPSC)**

The group has a private airfield at Kakira and owns several small planes used for the group and commercially in the region. The country did not have an aircraft maintenance centre and the group decided to start a business for the purpose. TPSC meets maintenance requirements for jets, turbo props and piston engine aircrafts as well as turbine and piston type helicopters (Group 3 and Group 6). The unit can also handle electrical requirements, components overhauls and troubleshooting. TPSC is approved by the DCA in South Africa, Swaziland, Kenya, Uganda and Tanzania.

xi. **Construction services: Excel Construction Services Ltd**

construction has been a sector that has grown tremendously in the country. There have been numerous new buildings both in government and the private sector. The group has also been rehabilitating most of its industrial empires. There was thus an opportunity to make money by starting a construction company but also to keep the money "home" for the company's own construction requirement. The construction company undertakes a wide range of construction activities from small refurbishments to major developments. The company engages in road construction and water supply projects.

xii. **Real estate: Muljibhai Madhvani Co. Ltd.**

Prior to the decline of the empire in the 1970s, the group had a variety of properties in both Kampala and Jinja. Most of these have been renovated and are rented out. The property company manages the finest residential/ commercial properties available for rent in Kampala and Jinja. Income from property is in excess of UgShs.800 billion per year.

xii. **Product distributors: East African Distributors**

This is the trading arm of the group. Agents for Union and Yale locks. Distributes a wide variety of other products including doors, hospital equipment, air conditioners, hardware among others. The group has global contacts with different producers and sellers of different products. The group takes advantage of these contacts to distribute such goods in the local market.

xiv. **Hotels: Marasa Holdings**

Under Marasa Holdings Ltd., the group bought two of the leading holiday resorts in the country from the Government as the Government privatized the sector. These are Mweya Safari and Para Safari Lodges. They have tourist facilities including bed, conference, game park visits. The group operates an international franchise in several African countries.

xv. **Other businesses**

Besides the above, the group is involved in other areas including computer services, air charter, television telecasting, steel fabrication, crown corks. The group decisions are done by the joint managing director who represent the different family members and other shareholders. Their entry into the different industries is a result of what they perceive as areas where there is potential for business growth and profitability. They go for areas where there are not many players and where according to them entry by small operators is difficult. They have plans to establish additional sugar factors in other parts of the country.

g. **Infrastructural contribution**

The Madhvani group continues to be the single largest business group in the country. In the 1960s they constructed a 14 mile dual carriage way between Jinja town and their estate in Kakira. This was the longest dual carriageway in the country at that time and continues to be the single longest stretch. They have factories in Kakira and Jinja town; they have several primary and secondary schools, health centers and an airstrip. They have over 60 kilometers of roads maintained in the hinterland besides 40 kilometers on their plantation. Their sugarcane outgrowers' scheme has over 4,000 farmers engaged in growing sugarcane supplied to their sugar factory. They have started producing electricity from the baggase, the waste from sugarcane. They will soon produce 30MW of electricity and feed it into the national grid.

They have buildings in Jinja town and Kampala which are let out for office and residence. They have tea estates and they give out scholarships every year to over 100 students in different university programmes. The Kakira sugar estate directly employs about 8,000 people but the entire group employs over 12,000 people with an additional 4,000 outgrowers.

h) **Annual scholarships**

Every year, the group through the Muljibhai Madhvani Foundation, a charitable trust, awards scholarships to Ugandans to enable them pursue higher education in Universities in Uganda. About Ug.Shs.400million (about US$200,000) is available for the purpose annually. This is a tribute to the founder of the business Muljibhai Madhvani.

i) **Tax contribution**

At one time the group contributed over ten percent of the countries total tax revenue (Fick, 2003). In 2003 with its different business, it was the largest single contributor to government taxes outside the oil industry. Besides the oil companies, the sugar business only appears in the first ten biggest tax contributors in the country annually.

7.12.2 Spear Group of Companies

a. **Founder:** Gordon Wavamunno

b. **Motivation for start-up**

For his first business, he saw opportunity to make money and enable people to travel in private and comfort.

Table 7.29: **Profile of Wavamunno's Spear Group of Companies**

1	Founder	Gordon Wavamunno	
2	Year of Establishment	1965	
3	Motivator for start-up	Exploit opportunity, Make money	
4	No. of companies	22	
5	Major products/services	Steel products	Banking services
		Bus and truck bodies	Publishing books
		Hospital equipment and furniture	Radio and TV broadcasting
		Insurance services	Hotel services
		Motor vehicles, sales and services	Cleaning and forwarding services
		Beds and mattresses	Flower growing and export
		Commercial and residential property	Manufacture of clothes
		Diary farm	Internet café
6	No. of employees	1,400	
7	Tax contribution	2002/3 – Shs.3.7billion	2003/4 –Ug. Shs.3.8billion
8	Infrastructure	• Commercial and residential buildings • Workshops • Hotel	

***Source**: Primary Data*

c. **Brief background**

Dropping out of school in 1959, Wavamuno worked with a family business for five years. His first business was started around 1965; it was a special hire taxi business. He subsequently went into other business including transport, dry cleaning, touring business until when he landed the prize of Mercedes Benz franchise in 1974. Since then he has had interests in banks, hotels, fabrication of steel products, television broadcasting, among others.

d. **Number of companies**

While some have been sold or closed or just become dormant, on record he has 22 companies operating at the time of the study.

e. **Number of employees:** Over 1400

The group has over 1400 employees in the various companies that it owns.

f. **Details about the businesses**

Gordon Wavamuno flagship business was and continues a franchise in Mercedes Benz. He received a franchise in 1974 and this has been the basis of growth in other businesses. He has several separate businesses in car sales and distribution. Mercedes Benz vehicles are the upper end of business and are used mainly by government department and tourists. He built his car sales business to include sales of different brands of vehicles. Besides Mercedes Benz vehicles, he got a franchise of Audi, Daiwoo, Eichio trucks, Bajaj motor-cycles and Enduro and Hero motorcycles and bicycles from India. He subsequently moved into earth moving equipment and represents Bouman and Liebherr. He said the sales of vehicles led him into engineering business. He established a business to overhaul, repair and service injector pumps and injector nozzles. When he started selling busses and trucks, he developed the idea of steel fabrication and brought a government company that fabricated steel products.

Today the company fabricated bus and truck bodies, tractor trailers, water and fuel tanks, road sign posts, car number plates, hospital, school and general equipments and furniture. His steel fabrication company has a contract to produce motor vehicle number plates in the country. Mr. Wavamuno came up with others to establish an insurance company which for several years became the leading insurance company in the country. The company offers a full range of general insurance products. As the economy was liberalized, Mr. Wavamuno decided to established a commercial bank in partnership with some local investors; the Nile Bank. As the study was being concluded, Nile Bank had been bought by Barclays Bank. In the reasons for establishing the bank was because of liberalization which had created opportunity and need to source funds for his different businesses.

Mr. Wavamuno in his youth had always wanted to build a hotel because as a business man he had travelled and seen a need for hotel business. The car sales business had led him to establishing a car rental business which handled many visitors. He built a modern four star hotel in Mbarara town (160 miles from Kampala) because he felt that the town did not have first class accommodation for tourists. The Hotel has a full range of services including accommodation, conference facilities, gym, restaurants and bars. By the time this study was completed he had sold the hotel to another portfolio entrepreneur.

Mr. Wavamuno remarked that he saw opportunity when broadcasting was liberalized to make money. He bought a radio station for his son who went into a partnership with a son of another portfolio entrepreneur to establish Simba radio. In the later years, He established Wavah Broadcasting Service (WBS) television which has been the leading local television. WBS television station has been telecasting local programmes including news features. And films. Wavamuno has also established other businesses including Publishing books, clearing and forwarding business which has been clearing imported goods including his vehicles. He went into cut-flower business to export flowers to European markets and bought an internet café from an existing portfolio entrepreneur. He has gone into partnership with Japanese investors to produce cloths and he is also into dairy farming.

g. **Infrastructural contribution**

1. **Buildings**

   The group has workshops and showrooms in the Nakawa/Ntinda industrial areas. It also has commercial buildings in downtown used as office space by numerous offices, Lake View Hotel, Mbarara is a complex with over 60 executive rooms (hotel was old by the time of completion of study), a gym, restaurant and bar. Other properties include a number of residential buildings that are let out.

2. **Equipment**

   The group handles repair for various motor vehicles. It also has equipment to fabricate trailer bodies, tanks and other steel products like furniture.

7.12 Summary and conclusions

The study set out to investigate whether a relationship existed between economic growth and entrepreneurship. The GEM studies were already in the process of studying this relationship using nascent and novice small sized entrepreneurs. GEM had been able to establish that some relationship existed between entrepreneurship and economic growth (UK GEM Report, 2001). However, GEM findings had methodological challenges (Rosa et al, 1996). Besides, GEM had not studied the existing firms. These are the corporate and portfolio entrepreneurs. This study identified the port-folio entrepreneur as important players in an economy this is because they start-up many business.

The study identified the key portfolio entrepreneurs in Uganda economy were able to trace their role in economic growth in the country.

The objective of this chapter was to verify the evidence available on the type of entrepreneurs who were key players in the economy and the role they played in the economic growth process. Large scale portfolio entrepreneurs were identified in the Uganda economy and the study confirms earlier findings by Rosa et al (1998) and Ucbasaran et al, (2003, 2008) that portfolio entrepreneurs start more business and have a larger role to play in the economy.

This chapter dealt with the specific question of which entrepreneurs emerge to exploit the opportunities that emerge in the economy as a result of the macro economic factors observed in chapter six. Chapter six had noted different phases of the Ugandan economy and different growth patterns. This chapter also attempted to establish the role of the entrepreneur in economic growth.

Portfolio entrepreneurs are significant contributors to the economy.

The study revealed that the portfolio entrepreneur is a very important person in an economy as evidenced in the tax contribution, jobs, production, infrastructure development and the multiplier effect. It is an agreement with studies by Ucbasaran *et al* (2003) who argue that habitual entrepreneurs are an important sub-group of entrepreneurs who make a fundamental contribution to wealth creation. These are numerous entrepreneurs including novice, serial and corporate. They too make a contribution but the contribution of portfolio entrepreneurs tend to be more significant because they are individuals unlike corporations and have a multiplicity of businesses.

Portfolio entrepreneurs are key instigators of economic growth

Seen in the light of the overall growth in the economy and the sectors that were growing in the Uganda economy (see chapter 8), the study revealed that portfolio entrepreneurs through start-up, job creation and production are key orchestrators of economic activity that represented economic growth in an economy. They perceive opportunities, pursue and exploit them, and their ability to command resources make it easy for them to enter an industry. They thus instigate growth confirming Schumpeter's assertions. Many of them were in all sectors in the Uganda economy that were growing and they thus perceive opportunities more quickly.

Evidence from the industrial production figures indicate that policy and the right environment create opportunity for business. This confirms the proposition by classical and neo-classical economists. These are important factors in economic growth but are not sufficient. An entrepreneur is required to do the actual production. The entrepreneur perceives the opportunity, mobilize resources and takes the necessary risk through start-up.

Portfolio entrepreneurs and succession planning

Given the importance of the portfolio entrerpreneur in an economy, interest in succession matters to ensure survival of business is important. Portfolio entrepreneurs run family business with influence of spouses and children in some cases being noted. It was difficult to conclude from the evidence obtained whether portfolio businesses can survive after their founders. Three of the businesses surveyed, the Madhvani Group, Mehta Group and Alam, showed evidence of succession and survival. In the Madhvani group, the third generation was taking over. In the other two groups, the second generation was taking over. The rest of the companies had not shown evidence of commencement of succession planning, let alone success in it. A few of them thought about listing at the stock exchange in future.

Portfolio entrepreneurs and social networks and education levels

Successful portfolio entrepreneurs are likely to be 40 years of age, male, with wide experience in business and a large network of people both within the organization and outside. This is constituted by managers and experts in the organization and bankers, suppliers, government officers and even competitors. The study found that each group had its network and some worked together even if they competed, Karim and Sudhir

Formal education is not an important driver of entrepreneurial activity of start-up though it is for continued management and continued successful performance of an organization.

Motivation of start-up especially of subsequent business by portfolio entrepreneurs

The literature attributed firm formation to profitability of an industry (Papanek, 1962), the need to achieve (McClelland, 1961) and social marginalization (Stanwarth et al, 1989). Profit is probably the strongest attraction to enter a specific industry. The study revealed that portfolio entrepreneurs, contrary to existing findings, do not start business because of pursuit of profit. While profit is an important motivator, portfolio entrepreneurs will start business especially subsequent business for other reasons including:

a) lowering cost in their other businesses,

b) to compete with another portfolio entrepreneur, and

c) in remembrance of their family members.

The literature on the churn indicates that businesses are attracted to an industry if the industry has growing profitability and will close if the profitability reduces. There is evidence of portfolios buying businesses which other portfolios think are unprofitable. The case of Sanyu Radio and Dembe Radio demonstrates this. The study concludes that motivation for start-up for portfolio entrepreneurs goes beyond the usual factors of profit.

Portfolio entrepreneurs and economic growth and development

In terms of the key debate on causation of economic growth, it is clear from the micro analysis of production sectors that it is not the case of the economy growing, followed by a take up of business opportunities by the entrepreneurs.

The economy is growing precisely because the entrepreneurs are producing goods and services. They not only produce, but set up multiplier effects that drag in chains of lesser entrepreneurs who in turn also contribute to the production of goods and services. There are signs of causation that call for more research.

In terms of causation of economic development, entrepreneurs do not just follow development. They are involved in the construction of infrastructure, the creation of jobs, and the contribution of taxes. They are in fact part of the development process.

Of course entrepreneurs are not the only factor that is entirely responsible for growth. These are other conditions including macro-economic stability, stable political conditions and availability of capital. The role played by portfolio entrepreneurs not only includes start-up of business but also in terms of coming up with necessary finances required for business start-up and growth. Entrepreneurs therefore, fill the gap of the need for finance.

The study is thus able to conclude that a relationship exists between entrepreneurship which manifests its self through the role of portfolio entrepreneurs and economic growth and development.

This study is able to establish that largescale portfolio entrepreneurs tend to enter industries that are prospective. This is because they are more alert to opportunities, have more information and are more analytical about what takes place in the environment. They have resources to start new businesses or acquire existing businesses and they have an extensive social network that emerges from their involvement in numerous businesses.

Unlike conventional wisdom of start-up being linked to profitability or need to achieve, portfolio enterpreurs start-up motivation tends to include unconventional motives like ability to lower costs in one industry, direct competition with another portfolio and sentimental reasons like in memory of parents.

The study is able to ascertain the contribution of the portfolio entrepreneurs to economic growth through business start-up, job creation and production of goods and services. They are also able to contribute to economic development through contribution to taxation, infrastructure and social support donations. The study therefore concludes that entrepreneurs have a key role in the economic growth process. This is thus a positive relationship between entrepreneurial activity and economic growth.

CHAPTER EIGHT

FIRM FORMATION AND DEATH (THE CHURN) AND ECONOMIC GROWTH IN SELECTED SECTORS OF THE UGANDAN ECONOMY

8.1 Introduction

This chapter reports on the findings of the formation of different industries in the Ugandan economy by identifying the role of habitual entrepreneurs and demonstrates the effects of creative destruction, or churn as a phenomenon underlying economic growth (see Chapter 4).

As discussed in Chapter 4, despite appearing paradoxical, the process of losing jobs due to closure and creation of new jobs due to start-ups actually creates growth in an economy (McTeer in the Federal Reserve Bank of Dallas, Annual Report, 1992; Reynolds and Maki, 1981) Start-up is a process largely attributed to entrepreneurs (Storey, 1994; Shane and Venkataraman, 2000; Ucbasaran *et al*, 2003).

This chapter examines start-up and growth of selected industries. It also examine the competition and shake out and the resultant growth of the industry as a consequence of this churn. It also examines the role of entrepreneurs so as to link entrepreneurial activity to growth. The discussion of each industry is in the following format:

a. Firm start-up and industry formation

b. Role of entrepreneurs

c. Industry growth

d. Competition and shakeout

The study focused on the entrepreneur as an individual rather than the firm and it examines the role individuals mainly portfolio entrepreneurs played in industry formation.

8.2 The Growth of new industries since 1986

Chapter Six discusses the growth patterns of the Uganda economy from the pre-independence period to date. A decline in the economy is observed in the 1970s and that since 1986, the growth in the economy has been remarkable. The chapter revealed the economic policy framework in the different periods and the resultant impact on economic growth. Of particular interest here is the fact that there was an effort by government to invite back the Asian community who left in 1972 and also an agency, the Uganda Investment Authority, was established to attract investors. Another key feature is the decision to introduce free market forces through liberalization and privatization. The key Asian entrepreneurial families that left in the 1970s returned. The Uganda Investment Authority has continued to attract investments in the country. Many state owned entrepreneurs were sold off and new laws to allow competition enacted. New industries have emerged while some others have been rejuvenated.

The industries that have emerged are a result of either liberalization policies of government or technological changes. There are some that have come up as a result of demand. The telecommunication sector has emerged to take a key role. The broadcasting sector, which is closely related to telecommunication because of technology, also emerged. The cutflower, tourism, education industries have emerged. Commercial banking, insurance, food production, steel were rejuvenated. Entrepreneurial activity was evident in many other sectors and boosted their growth, specific industries include petroleum distribution, supermarkets, professional services like accounting, medical and engineering. These shared high growth since 1990.

Table 8.1: Rejuvenation in selected industry types

	Industry Type	**Date of emergence/ Rejuvenation**
a.	The broadcasting sector (i) Frequency Modulation Radio Stations (ii) Television	 1992 1993
b.	Forex bureau sector	1990
c.	Telecommunication sector	1993
d.	Commercial banking sector	1987
e.	Insurance sector	1991

Since the study finally focused on the role of portfolio entrepreneurs, the specific industries below that were studied were selected because of either their visible high growth rate or role of the portfolio entrepreneur in the specific industries. Besides availability of information, was another factor.

There were industries like cutflower which are not reported but were studied. The information was not complete to warrant reporting.

Below the selected industries/sectors are identified and discussed in detail explaining how the activities of entrepreneurs has resulted into start-up, industry formation and growth and finally into economic growth and the role of entrepreneurs in this process.

8.3 The Broadcasting sector

The sectors consists mainly of radio and television broadcasting. It is part of the wider telecommunications sector, but it is dealt with here separately. The broadcasting sector was the monopoly of the Uganda government from the 1950s through to the late 1980s. It has two sub sectors; the radio sector and the television sector. At the time of the liberalization, the airwaves were dominated by Radio Uganda and Uganda Television which provided a national coverage. Radio Uganda was licensed in 1954 and Uganda Television in 1962. These two government entities dominated the sector as monopolies until the time of liberalization in the early 1990s. The second radio station was licensed in 1992 and second television in 1993 opening up new opportunities and growth in the economy. The two sub sectors are discussed separately.

8.4 Frequency Modulation (FM) Radio Stations

8.4.1 Firm start up and industry formation

Government announced its intention to give up its monopoly in the broadcasting sector in the 1987 policy initiatives of freeing up markets and liberalizing the economy and selling off government owned enterprises. In the radio transmission, it took several years for the opportunities that opened up to be accessed. The first private FM radio station to enter the industry was Sanyu FM licensed in 1992. The delay in accessing the opportunities is attributed to the absence of an enabling legal framework. It took a long time for government to actualize its intention. While the policy objective of liberalization was announced in 1987, the law under which the radio stations could be licensed was enacted in 1991. Since the licensing of the first station in 1992, entrepreneurial activity of start-up has been intense. By 2006, over 140 stations were started and licensed. This start-up activity is an agreement with Taylor (1999) that deregulation attracts new firms in an industry. However at the time of the study only 26 were in operation. Some had started operations and closed. Others were still births and never took off while some had changed hands. This also confirms findings by Horvath *et al* (2001) that an exponential rise in entry is followed by a shake-out and significant drop in numbers in the industry in a short period (Table 8.2).

Table 8.2: Growth in FM Radio stations

	1990	**1996**	**1998**	**1999**	**2001**	**2002**	**2003**	**2004**
Licensed	1	14	28	37	112	117	119	141

***Source**: Primary data from Media Council*

8.4.2 Role of entrepreneurs

The first entrant into FM radio industry was a portfolio entrepreneur Thomas Katto, with **Sanyu Radio** station in 1992. Subsequently entrants involved known entrepreneurs like the Wavamuno family, Sekalaala family, Karim Ddembe and Kiwanuka family. What is significant is that many of them are portfolio entrepreneurs who are said to be more alert to opportunities than other types of entrepreneurs. They entered this industry and have been among the successful ones. This is in agreement with Ucbasaran *et al*, (2003).

At the time of the study, Thomas Katto, an aging businessman in the country, was known to have had interests in different businesses (now deceased). He ran a portfolio of businesses successfully in the 1970s under the brand of 'Sanyu'. These included toilet paper, tooth paste, beer, insecticide, cotton products, insurance among others. He left the county in 1981 as a refugee and returned in 1987 to literally recreate his industrial empire. He entered the broadcasting sector in 1992 with a radio station, Sanyu FM and subsequently a television Station, Sanyu Television. He also had interests in property and banking. The reasons he entered the broadcasting sector were due to an opportunity he saw to make money out of advertising, revenues on radio. Katto had noted:

> *"Prior to liberalisation, Radio was dominated by the government owned Radio Uganda. It run programmes that were not attractive, more than half hour of news, one hour of*

> *death announcements, and similar unattractive programmes. It operated between 5 am and 12 midnight. By offering a different service that was attractive, there was potential to make money".*

He said he had seen FM Radio stations elsewhere in the world as popular channels because they carried music and attracted young people and in the process attracted adverts. While Katto pioneered radio stations he subsequently sold out to another portfolio entrepreneur as his industrial empire declined. Katto sold the Radio and Television businesses and the Bank he started was also closed by the Central Bank for failing to meet regulatory benchmarks. The sell out was another business start-up by another entrepreneur, while the closure of the bank was a typical shake-out feature as the industry changed a process of industry refinement (Klepper and Simons, 1993; Klepper 1996).

Capital Radio was the second radio station to be licensed. The founders include Mr. William Pike and Mr. Patrick Quarcoo among a group of others. At the time of the start-up, William Pike was already in the mass media industry as Managing Director of the country's largest daily newspaper, the New Vision, owned by government. They saw the liberalisation of the sector as an opportunity both to give the public a different view from that of the government owned Radio Uganda, but also as an opportunity to make money (Taylor, 1999). The New Vision, the government daily, had also moved from a small weekly paper to now the largest daily in the country under the leadership of William Pike. Capital Radio has become one of the leading stations in its specific market segment. While William Pike had no previous start-up experience, he had accumulated experience as Chief Executive Officer of the country's largest, successful and growing daily newspaper. When Kenya liberalized its FM market, Pike and his colleagues opened another station in Nairobi, Kenya, a neighbouring country.

Radio Simba was another radio station that was started early. This was started by the sons of two portfolio entrepreneurs, Gordon Wavamuno's son (Elvis Sekyanzi) and Aga Sekalala's son (Aga Sekalala Jr.). (These entrepreneurs are discussed in Chapter 7) The fathers were not aware at the time of conception of the idea of a radio station, but they blessed and supported the project said Gordon Wavamuno,

> *"I was visiting the United States and somebody said he was selling a Radio Station and I bought it"*.

Wavamuno later started a television station. He bought the radio station for his son's proposed business. The sons started the project due to their interest in soccer. They wanted to bring international soccer news to the public which did not have an avenue for listening to soccer because of limited airtime on the radio waves. They also wanted to cash in on the adverts revenues that would be associated with soccer events and news broadcasting.

> *"No body was airing popular international soccer matches in the country, yet there is so much interest in it. You will have many listeners and of course advertisers"* said one of the proprietors.

This confirms Kirzners view of opportunity recognition due to availability of information to a selected few. The two founders were sons of persons already in business, confirming Stanworth's *et al* (1989) view that parents having been in business is a factor in business start-up. Besides this is also in agreement with works by Audrestch (1992) and Evans and Jovanovic (1989) that profit seeking drives start-up. Karim Hirji (Ddembe as he is known-meaning freedom) is another portfolio entrepreneur who entered into FM radio, with **Ddembe FM**. This entry was motivated by a growing industry where he could carve out a market share and where he could promote his products. He wanted to use his network with other business people to cash in on the advertising revenues.

> *"There was money in advertising and this area appeared to be growing fast",* he said.

Again this is a confirmation of profit as a driving force in start-up.

Mohan Kiwanuka is a portfolio entrepreneur with interests in paper and paper products, the cut flower business and others. He started **Radio One** and **Radio Two**. Radio One is mainly for those middle class society and broadcasts mainly in English with popular talk shows in english on current political trends. Radio Two broadcasts primarily in the local language, luganda, with talk shows in luganda.

The two radio stations are also distinguished with the nature and type of adverts carried on them. The reason for entering the industry was that *"there was an opportunity in a growing industry to make money" (*Thomas Kato). Entry did not have barriers. Profit, again, is cited as a start-up driver. While Radio One targets high income groups, Radio Two targets low income groups.

Central Broadcasting Station (CBS) was started as a community radio to support a local community. It is identified as belonging to and serving the interests of the Buganda Kingdom. It broadcasts mainly in Luganda and carries Luganda programmes. It targets low income groups.

Other radio stations have been started to serve regional interest, **Nile FM, Kiira FM, Radio West, Tooro FM** are among those FM radio stations located in regional towns and broadcasting primarily in local languages. They do not have appeal beyond their regions.

8.4.3 Industry growth

The industry has grown very quickly. It is still in the stage of take off and shakeout appears to be just starting. Since the first radio was started, the industry has attracted many new entrants. Over 140 radio stations have been licensed. At the time of completion of the study more applications awaited approval. However, 26 were in active operation at the time of the study. The growth of the sector is not only reflected in the number of start-ups but also in jobs created and advertisement revenue generated by the sector. Unfortunately it was difficult to get actual figures throughout the industry. Some of the information obtained is in the Section 8.4.5 ahead.

The radio sector, which was until the time of its liberalization only in the public sector has become accepted in the general public. Its leaders, the journalists and presenters have become public figures. This industry followed an ecological model of growth confirming findings by Aldrich and Fiol (1994). The industry existed and was known to be an exclusively government area. As more stations opened and despite their criticism of government, they continue to operate and the industry has become legitimate.

The industry has given rise to other developments and business opportunities. The advertising media has grown with the use of FM radio stations. The phone industry is growing with the phone-in talk shows. The growth of this industry has created jobs in the advertising sector, and its multiplier effect has seen jobs in industries that deal with the sector. The mass media degree programmes have grown in different universities and institutes, reflecting on the demands for the human resource.

8.4.4 Competition and shake-out

With over 140 radio stations licensed by 2005, the industry has been very vibrant. It has attracted many entrants. However, with the competitive dynamism of the industry only 26 were operating at the time of the study. Some radios were still-births as they failed to start. Most of the others operated for a short time and closed. Those we were able to access say they closed because they failed to generate sufficient revenues to carry out the business.

An analysis of the industry revealed that the industry has different market segments and radios stations compete in those segments. In some cases there appears to be no competition. For instance some radio stations operate in a high income population market segment, while others operate and compete in a low income population segment. Capital Radio, Radio One, Monitor FM (now KFM) and Sanyu FM target high income groups and compete in that market segment. While the industry generally has no entry barriers, entry into that market segment is restricted by the intensity of the competition. The advertisement revenue, which is the major income source of radios, limits entry. Radio stations with high ratings get more adverts and thus have higher contributions to costs, which enable them to survive.

Central Broadcasting Station (CBS), Simba, Radion Two, and Super FM target low income Luganda speaking groups. Competition among them is also very intense and with advertisement revenues, has also been a barrier to entry. Focusing on Luganda speaking market makes them regional radio stations. Radio West, Radio Tooro, Soroti, Lira, and Nile are also regional radio stations focusing on and appealing to certain cultural and language groups. As a result they do not have direct competition among themselves unless there is more than one radio station in a specific area like Jinja town there is Nile Broadcasting Station and Kiira Radio. Radio Maria, Radio Africa and Top

Radio are religious radios. However, they mostly target different local audiences. These radios focus on different market segments and therefore do not compete with one another like the regional radios in different language groups.

Competition is therefore not industry-wide and not all radio station compete with one another. Radio station compete against one another jockeying for position within market segments. The intensity of this jockeying for position is reflected in newspaper advertisements by these leading radio stations conducting their own surveys and placing themselves on top. While Capital Radio has been reported to be the number one listened to radio station, Radio KFM recently came up with its own survey placing it as number one (Monitor Newspaper, January 12, 2005). The position is only in the market segment.

This segmentation of the market appears to have an impact on entry. While over 140 have been licensed, only about 26 were in active operation at the time of the study. While it appears there are no entry barriers since start up costs are low (with US$50,000 one can start a radio) the actual entry has been restricted by operating cost structures and revenues from advertising in a market segment. These appear to be the limiting factor. As one of the proprietors said,

> *'Our success has depended on our ratings and advertisement revenues. Ratings are based on number of customers who listen in. If you rated a high, advertiser will place adverts with you'.*

The major source of revenue is sponsorship of programmes and direct advertisement. The big radios with national appeal continue to attract sponsorship and advertisement revenues from big corporations. The smaller regional radios feel the competition is squeezing them out of the market. Many are reported unable to pay salaries to staff regularly, a Managing Director of a regional radio station confessed during an interview.

> *"We have equipment and can air news and other programmes but without advert revenues, we cannot meet our expenses. Our staff go for months without salaries. At some stage we may have to close".*

The industry attracted new entrants because it appeared to have profit potential. This confirms views by Evans and Joavanic (1989), Audretsch (1992), Thomson (2003) that profits attract new entrants to an industry. However, the entry was not concentrated in the early stages of the industry formation. The largest number of entrants were in the later years. The swarm-like activity did not occur as a few radio stations were licensed gradually every year. The low rate of 26 operating radio stations out of 140 licensed by the year 2005 shows the intensity of the competition. While 26 are reported operating only about 12 actually appear to be operating actively.

At the time of completion of this research, Sanyu FM had been sold to another portfolio entrepreneur. Ddembe FM, had been sold to another businessman, an emerging portfolio entrepreneur. The founder managing director of CBS left after several years to start his own radio, Super FM.

8.4.5 Contribution to Growth

The radio sector does not sell a tangible product and its revenues do not come as a result of direct broadcasting. Revenues are in terms of sponsorship and advertising. It was not possible to get industry wide meaningful information on advert revenues. However, with about 26 radios in operation, the sector contributes jobs to the economy (selected data are shown in Table 8.3). Each station has an average of sixpeople. The sector also facilitates transfer of information from advertisement to potential uses and also educates listeners.

Table 8.3: Contribution of selected FM stations

Name of Radio	Founder	Founder type	Date established	No. of employees	Average Advert Revenue per year
Capital	Pike & Quarcoo	Corporate Manager	December 1993	40 persons 20 free lance	Shs.2,000 million
Radio One	Kiwanuka	Portfolio			Shs.1.800 million
Radio Two	Kiwanuka	Portfolio			Shs.500 million
CBS	Group	Group	1996	140	Shs.1.200 million
Super	Sematimba	Serial	2001	30	Shs.900 million
KFM	Corporation	Corporation	2003		Shs.1.200 million
Simba	Sekalala/ Wavamuuno	Portfolio's sons	January 1999	70*	Shs.1.700 million
Sanyu	Katto*1	Portfolio	Dec. 1993	33	
BEEP*2			Sept. 2004	110	Shs.200 million
Dembe	Karim Hirji*3	Portfolio	Nov. 2001	60	Shs.65 million

***Source**: Primary data* **Acquired from Semujju Kiwanuka 2004*
****1** – Bought by Sudhir, a portfolio entrepreneur*
****2** –*
****3** – Bought by Patrick Bitature recently*

8.5 Television – Sub Sector

Like the radio sector, television was dominated by Uganda Television, a government owned station. Liberalization saw the entry of Sanyu television in

1993. This again confirms Taylors view (1999) that deregulation attracts new firms into an industry.

8.5.1 Firm start up and industry formation

Uganda Television (UTV), the Government owned corporation was started in 1962. It monopolized the market until liberalization in the 1990's. **Sanyu Television** was the first company to be licensed in the private sector. Sanyu Television was owned by Thomas Katto, the same person who started Radio Sanyu FM. Sanyu Television was followed by **Channel Television** (CTV) and later **Multi Choice Uganda**, a digital satellite television service provider based in South Africa. **Wava Broadcasting Station** (WBS) was licensed in 1999. At the time of the study, there were seven active TV stations, **UTV, WBS**, **Lighthouse TV**, **East African TV**, **DSTV** and **Channel TV**. **Madhvani TV** also broadcasts but tends to be restricted to the Jinja area. The total number licensed to date is 23. Contrary to the literature, there has been no swarm-like rush to enter the industry. The start-ups have therefore been limited in nature.

8.5.2 Role of Entrepreneurs

Katto as already discussed was the first to enter the Radio broadcasting sector. Kato entered the broadcasting sector taking on both FM radio and television for more or less similar reasons.

> *"There was an opportunity both to make money and satisfy a need that existed in the market. Uganda Television operated for a few hours a*

> *day between 5:00pm and 11:00 pm, carried mainly news for long periods and did not appeal to the youth. There was an opportunity to make money out of adverts if TV was available for a longer period. After all, Televisions had turned to a 24 hour operation" Thomas Kato.*

Katto patterned with an international TV firm to offer variety to the public.

> *"The motivation for commencement was to cash in on advert revenues that would come with the programs and also to fill a gap of local broadcasting that existed".*

Karim Hirji (Ddembe), obtained a license but has never started operations. According to him, he perceived an opportunity lurking in the environment to make money. However, other opportunities that brought higher profit were handled first. Karim as an entrepreneur confirms Kirzners (1973) proposition on perception of opportunity. Wava Broadcasting Services (WBS) owned by Wavamuno, has been the most successful local television. It was started in 1999. WBS has provided the alternative to Uganda Television as a local service provider. It has a variety of programmes appealing to different market segments and has teamed up with CNN to provide for that market looking for global news service. The Madhvani Group also entered the TV broadcasting market but has not made a national appeal yet. By the time the study was concluded, they had sold the business. The other TV stations are corporate owned and include Lighthouse which is a religious based service and East African TV owned by the Nation Group of Companies, a service company in newspaper and publishing.

8.5.3 Industry Growth

From one television station in 1992, 22 other television stations had been licensed by the time of completion of the study (Table 8.4). However, only four stations have been active in the period since liberalisation. These stations have created jobs and have also created revenues in the advertising industry. The industry has supported the media industry generally. Advertising companies have come to design and manage advertising campaigns of companies that advertise on the television stations. The local music industry has also been supported indirectly. Video clips of different musical artists are aired on these stations. Even the local film industry has been encouraged. Popular local soaps like *'Bibawo (These things happen)'* and *'That's Life Mwatu' (My friend)* have been screened on the local stations and some of them made their way to international digital television. *Bibaawo* is screened on the South African DSTV, But the industry growth appears constrained. Industry players report that while local TV is welcome in the local market, the largest number of programmes preferred by the viewers are produced and marketed by multinational companies. Growth of local programmes and more stations has been slow.

Table 8.4: Growth in TV Stations

Year	**1991**	**1996**	**1998**	**1999**	**2001**	**2002**	**2003 2005**
Licensed	1	4	8	11	20	22	22 23

Source: Primary Data

8.5.4 **Competition and shakeout**

Growth in TV stations has been slow unlike the FM Radios, the competitive forces shaping the television broadcasting sector are different. According to one of the owners, TV programming is mainly news and films. He said,

> *"Global companies like CNN and BBC dominate the news programming and therefore local TV stations cannot compete with them in these areas. You can only compete on local news and programmes!"*

Local TV stations therefore have to join them to telecast international news. TV stations telecast a variety of programme ranging from films, sports, music, children's programmes, among others. There are different producers of these programmes. There are global companies that produce and market films, they include Sony, MGM among others. To be able to telecast films, local stations have to get agreements with international distributors.

> *"Agreements with these companies are very difficult. Because we take small quantities, we are charged very highly to secure rights to televise these programmes. Producing our own programmes is very expensive"*, said one manager in a TV station.

These international programmes are available primarily on the pay TV station; Multi-Choice, the South Africa digital satellite based pay TV station has about 40 channels of news, films, sports and other special programmes.

Sanyu Television wound up due to the difficulties the owner experienced in his business globally. Another Television station, Channel Television (CTV), was started by a group of electronic engineers. It was shaken out of the industry as it failed to cover its operating costs. Lighthouse Television was one of the later entrants in the industry. It entered with a very strong signal and clear picture. However, it is a religious based station televising Christian programmes with some limited international and local news. It is bankrolled by founders abroad and while it seeks advertisements to meet some local costs, it appears adequately funded. Since its main product is Christian programmes, it does not compete head on with other stations. WBS Television has been the local station that has weathered the storm. One of the managers said,

> *"Our strength has been in a product mix. We have better news than our local rivals, we have popular local programmes, and we also broadcast international films at no cost for subscribers. We rely on advertisement revenues. This way, we are able to compete with DSTV, which charges between 36-75 dollars a month"*.

WBS has local news programmes and the local communities have preferred it to the official Uganda Television. It has remained competitive because unlike multi-choice with over 40 channels, it is not a paying station and has a variety of programmes including local ones.

8.5.5 Contribution to growth

By 1992, the country had only one TV station. At the time of concluding the study, there were six operating stations and the pay station DSTV has over 40 channels. The first contribution the industry has made is make a service available. Information is availed to viewers which they did not have previously. Like radio stations, however, it is difficult to assess the revenue of the TV stations because it largely comes from adverts revenue. CNN, the global network, is viewed on various local channels free of charge. It is difficult to assess its "sales" revenue locally. DSTV, which beams waves to over 6,000 families in the country contributed over Shs.1.6 billion in taxes in 2003 and 2004/05 contributed over Shs.6billion. The different stations have created jobs, including newscasters, gatherers, programmers and technical people. WBS, the most successful local operation has 142 workers and advert revenues are reported at Shs.1.6billion in the year 2005. *(It was not possible to get industry wide figures)*. DSTV operating under the local name Multichoice employs over 50 people and has franchised other companies to do installation, sales and maintenance for them.

8.6 Forex bureaus

8.6.1 Firm start-up and industry formation

The decline of the Ugandan economy in the 1970s resulted into a corresponding decline in the purchasing power of the Uganda shilling. As the country's production declined and exports declined the exchange rate of the Uganda currency vis-à-vis the dollar and other currencies worldwide weakened. The shortage of exports brought about shortage in foreign exchange and this gave rise to the parallel (black) market as foreign exchange was available only at a higher price. This was locally known as the ‘Kibanda’ market.

> *“The selling of foreign currencies in the parallel market started in the late 1970s as the purchasing power of the Ugandan shilling collapsed. Those who brought in foreign currency from abroad would rather sell it in the parallel market where the exchange rate was higher, more realistic and reflecting on the forces of demand and supply than in banks where you sold at a lower rate. Since there was not enough to buy either, buyers went to the parallel market where it was readily available” (*Mohan Kiwanuka, one of the portfolio entrepreneurs).

He continued to say that,

> “*And even those who were privileged to get foreign currencies allocated to them officially, were better off offloading it on the parallel market where they got a good profit rather than use the money to trade abroad”*.

The parallel market grew and flourished between 1972 and 1987. In the period 1981 to 1986 the Government then as part of policy decided to have Window I and Window II. Window I was the continued depressed forex market which was used primarily for government imports and Window II was for business people who needed to buy forex at a near market rate. This, however, did not get rid of the parallel market. Three separate markets existed and the parallel market continued to reflect the correct exchange rates.

The major policy measures announced by Government in May 1987 introduced a complete freeing of forex markets. The Uganda shilling was let to float on its own and find its own price as determined by the market forces. This gave birth to a 'new' industry, the Forex bureau industry, where major world foreign currencies are bought and sold at prices determined by market forces rather than the managed market that existed before. This decision to liberalize was in effect legalizing the hitherto illegal market in forex. It required those who wanted to deal in foreign currency to register and obtain a license. This decision saw a formalization of entrepreneurs who already did the business. This, however, also allowed those who for one reason or another did not deal in the parallel market, like banks, to formally enter the market. Because of the low entry costs, it required only US$20,000 to start, many firms entered the market. In the first year of the registration in 1990, there were over 40 registered firms. This was a swarm-like activity described by Schumpeter. Since then, the number of new entrants has been about ten every year and by the year 2004, over 200 firms have been licensed but there were 75 operational bureaus at the time of the study. There have been closures, "deaths", of firms reflecting the dynamics of growth of the industry. The large entry into the market at the beginning appears to confirm to swarm-like entry proposed by Schumpeter and the theory of a profitable growing industry (Audretsch, 1992; Evans and Jovanovic, 1989). However, this may not necessarily be true. Already most of these entrants were in the illegal market. This was a formalization. Two industries had existed in the same sector created by policy and their union was also as a result of policy.

8.6.2 Role of entrepreneurship

Before the liberalization of the market for forex there were entrepreneurs who dealt in the market but illegally. These were people who perceived and exploited opportunity that existed in the environment. They had knowledge about demand and supply of forex and came in to provide the service of buying and selling Forex at a profit. The industry existed but was not legitimate. There were many players in the parallel market, there was cognitive legitimacy as the public knew about the products but there was no social or political legitimization since government and the general public did not accept the industry as appropriate and right. The players were not respected by the public.

The initial formal entrants into the sector were largely those individuals who were already dealing in forex illegally or those involved in export and import business and were aware of the money to be made in the market. Among the early entrants are those who have been identified as portfolio entrepreneurs in *Chapter 7*. Again this confirms the view that portfolio entrepreneurs are more alert to business opportunity.

Among the key players who started the industry formerly was Orient forex bureaux, which later turned into Orient Bank. Another was Crane forex bureaux which also developed into Crane Bank. Crane Bank is owned by a portfolio entrepreneur, Sudhir Ruperalia, whose interest in other businesses has developed in recent years turning him into one of the important portfolio entrepreneurs in the country. He, Sudhir Ruperalia, remarked,

> *"Selling and buying forex was a secondary business I did for my customers who came to buy beer. Since they found I could exchange the money for them, they no longer had to go to the bank or other places. When the beer business stopped as a result of ban of imports, this became my main business"*.

Among the portfolio entrepreneurs studied who own a bureau is Shumuk Enterprises, Shukla Mukesh, Hotel Africana owner B.M. Kibirige, Karim Hirji of the Imperial Group of Companies and the Mukwano group of companies. These portfolio entrepreneurs are themselves traders and have other businesses.

One of the portfolio entrepreneurs interviewed said that:

> *"I started the bureau not with an intention of making money but a convenience to get the forex which was required for my other businesses. You buy at a lower rate and sell to yourself at a similar rate less transaction costs. In essence you are not looking for profit but for forex at a low rate. You are able to bring in your inputs at a lesser cost"*.

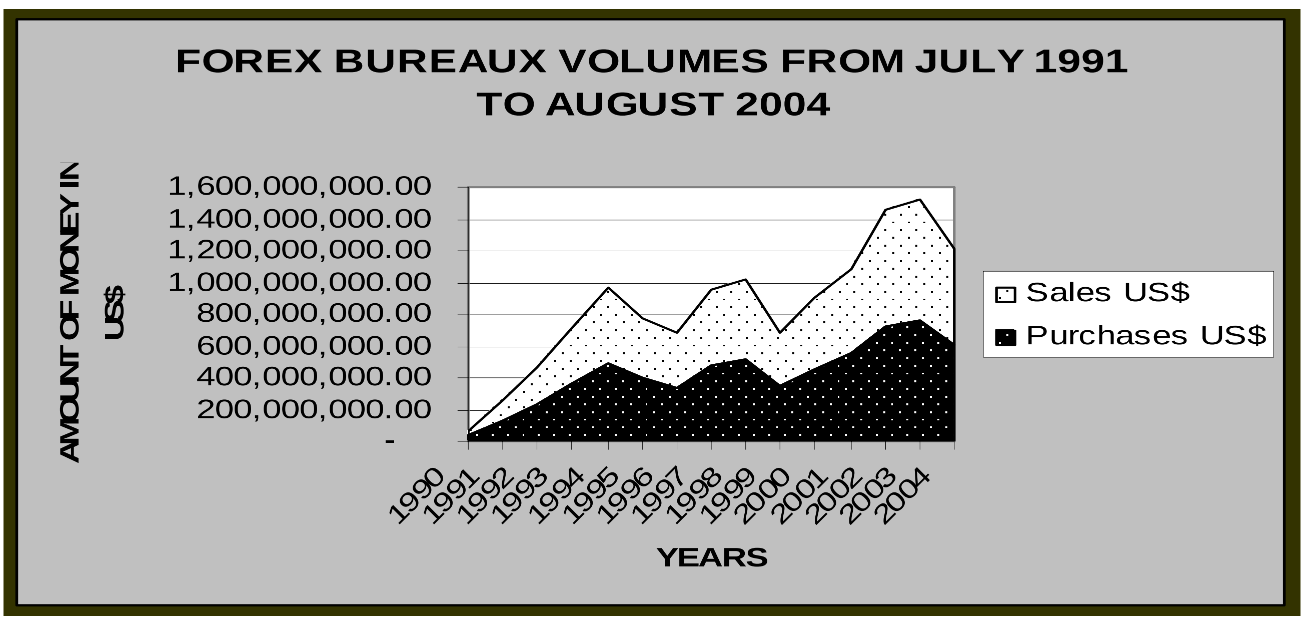
For other entrepreneurs, their motivation for starting the forex business were to take advantage of the opportunity that existed in the market. This confirms Kizner's proposition of perception of knowledge by those with information who take advantage of that superior knowledge to start a business. However, many others started or entered the industry so that they could be able to secure forex for their own businesses.

An important feature of the industry is that commercial banks were late entrants into the industry. Prior to the liberalization, commercial banks were agents dealing in Forex and bought and sold it on behalf of the central bank at the official exchange rate. They lost this monopoly at the time of liberalization. With high overhead costs, banks could not sell and buy small sums of forex competitively which characterized most transactions in the bureaus. However, they have since entered and cater largely for needs of corporate customers. Their rates are actually not competitive for small transactions. The entry of commercial banks into the forex industry where profit margins are very small, confirms studies by Geroski and Mazzucato (2001) that profitability and entry barriers are not what determines entry rather it is accumulation of sufficient information about the industry. The banks entered the industry after studying and knowing the importance of the sector to their overall business activity. Since they deal with large companies, the forex sales for such companies would justify entry.

8.6.3 Industry growth

The industry existed before liberalization and legalization but was not legitimate, therefore there was no data on who the players were and the volume of business. Many people sold forex clandestinely. Legalisation created a rush in the market; one cannot tell who of the players in the black market came to the formal industry. This is because most dealers in the parallel market did not want to be known formally. In the first year, over 40 companies were licensed.

Figure 8.2: Showing the Forex Bureau Purchases and Sales in Uganda



Source: Primary data

This rush could be the formalization of the previous illegal operations. Since then over 200 start-ups have been recorded and licensed, although at the time of the study only 75 companies were in operation and fewer than 20 dominated the market. The industry has grown over time. Purchase of forex has grown from zero to over US$ 600 million per year while sale of forex has gone to almost US$1.6 billion per year over the period 1990 and 2004 (Figure 8.1).

8.6.4 Competition and shakeout

It was expected that commercial banks' entry into the market would change the nature of competition. It did not. Banks serve mainly corporate customers with large sums of money yet the small forex bureaus break bulk. They accept as low as ten dollars for trade. Rates of commercial banks therefore continue to be uncompetitive, thus leaving opportunity to the small bureaus to survive and continue in the industry. The industry appears to be in the shakeout period. The number of operators is still high. Unfortunately the licensing of new bureaus has recently been stopped because of allegedly 'too' many players by the Central Bank. This restricts competition and delays the shakeout making the industry still operating with high cost.

8.6.5 Contribution to growth

The amount of forex bought and sold in the industry is a sign of the contribution to the economy. Rising from zero to over US$1.6 billion over 14 years is a big rise showing a large contribution to the economy. Prior to legalization, forex was sold under the table and if caught, those involved would lose their money and could even be jailed. Unlike banks with large overheads, forex bureaus have more competitive rates and buy and sell even small amounts. Bureaus have created jobs. On average a standard bureau has three employers. Probably the most important service has been availing forex to small traders in different locations in the country at competitive prices. Many traders who did not want to go to banks where full records of the transactions are kept found comfort in forex bureaux.

8.7 Telecommunication sector

8.7.1 Firm start-up and industry growth

This sector was dominated by the **Uganda Posts and Telecommunication Corporation (UPTC)** a Government public enterprise until 1993. Like other sectors, this one was also formally opened up as a result of the liberalization and privatization policies started in 1987. Prior to that, the UPTC was a monopoly in this sector. It combined activities of a regulatory authority, telecommunications and posts and also bank service providers. It sold phones, connected phone lines and also regulated the sector. Getting a phone connection could take up to a year and you required numerous introductions, photographs and other bureaucratic requirements and procedures.

Opening up of the industry was as a result of liberalization policies government had initiated earlier. The delay in accessing the opportunity was because there was no enabling legislation to license new operators. A mobile service provider **Celtel Uganda**, was licensed as the first mobile phone service provider in 1993. Celtel was the second telephone service provider after UPTC, to enter the market. At that time, there were about 45,000 landlines in the country and the technology was primarily analogue and aging. In 1995, a paging license and in 1996 a satellite license were issued to Celtel. Celtel operated in the country for five years before the entry of **MTN**, a South African company as the second mobile service provider and third service provider in the telecom industry.

In 1998, MTN was also licensed as a National Telecommunications operator making it the second after **Uganda Telecommunication Limited (UTL)** which, had taken over from UPTC after the latter's privatization. This allowed MTN to provide land line services. In 2000, UTL was subsequently licensed as a mobile cellular operator bringing the number of mobile service providers to three and national operation for both landline and mobile to two.

8.7.2 Role of entrepreneurs

The key organizations in this industry are corporations. The sector has no serial or portfolio entrepreneur in direct service provision. UTL is the privatized UPTC which was a government monopoly in the telecommunication sector. Celtel entered the market initially as a subsidiary of a British mobile phone service provider. MTN is a South African Company and also a big corporation with business interests in different parts of Africa. It has thus been corporate entrepreneurship at play in the sector. Portfolio, serial and novice entrepreneurs entered the market to sell phones, phone parts and distribute airtime credit to users but have had no role in the services provision.

8.7.3 **Industry growth and competition**

Celtel which was in the market for over five years without competition did not achieve the growth that MTN achieved on entry in its first year of operation. The number of mobile subscribers when Celtel started grew from zero to only about 12, 000 over a five year period while MTN caused growth by over ten times in its first year of operation to over 100,000 subscribers. Celtel subsequently engaged competitive strategies that have seen their subscribers grow to over 300,000. MTN has however led the growth over the years.

The industry is a high technology industry that requires heavy investment in infrastructure in millions of dollars. It therefore has entry and exist barriers. Entry in the industry requires large investments into a national infrastructure and high cost technology. This is not easily accessible by small entrepreneurs. This is possibly a reason why it is corporate entrepreneurship that has dominated the industry. Besides, investment, licensing has also been an entry barrier. On licensing MTN, it was given a five year period within which no new provider would be allowed to enter the industry thus imposing non marketing limitations to the competition. Because of the heavy investment, it is also difficult to exit the industry. As a result, there are only a few players

Telecommunication involves transmission of data and voice and in this industry, there is both mobile technology using satellite and fibre optics to carry data. This is besides the old wires that dominated the industry up to the

1990s. MTN grew by having satellite relay stations installed all over the country out competing Celtel which was the first entrant into the market. They also went into laying fibre optic cables and diversified their product portfolio into landlines. They were thus able to take advantage of these infrastructures to compete with both Celtel in mobile telephone and UTL in landlines. Subsequently they added internet provision as they increased their product line. Celtel has been slowly improving its infrastructure but also bought an internet service provider Infocom, one of the first companies to set up shop in Uganda. The purpose was again to integrate services using similar technology platforms and enable them compete in the industry.

Competition in the industry has been very intense even when the number of companies are very few. UTL joined mobile services provision with an advantage. As UPTC, the state monopoly, they had infrastructure which had been paid for by the state which UTL took over. UTL was therefore ahead of their competitors in national telephone infrastructure. The companies have been lowering call charges and the cost of a local call has come down from a dollar to now about 25 US cents per minute. At the time of introduction of the mobile phone in 1994, a subscriber paid about US$ 1,000 for the phone, US$ 500 for a post paid service deposit and was invoiced on a time spent/consumed basis. Prepaid subscribers do not have to pay the deposit. Today handsets go for about US$ 100 and connection fee is less than US$ 10 just to enable a person buy a sim card.

Table 8.5: Industry growth and competition

Years	Dec 1996	Oct 1998	Dec 1999	July 2001	Dec 2002	Sept 2003
Fixed Lines	45,145	56,196	58,261	56,149	59,472	64,859
Mobile Cellular Subscribers	3,000	12,000	72,602	276,034	505,627	711,313
Pay phones	1,258	1,433	1,680	3,310	3,200	3,347
Internet Service Subscribers	504	1,308	4,248	5,999	6,500	7,024

Source: *Uganda Communication Commission*

Competition in the industry has been driven by various factors, pricing, advertising and service. The industry has entry and exit barriers. It is a heavy investment industry and thus has entry barriers and once in it, it is not easy to leave. It is not surprising that it has only three operators. Changes in the industry are driven primarily by technology but competition has also played a major part.

The industry appears to be still growing rapidly. The total number of different phone subscribers is now reported to be over 1,600,000. MTN now has over a million subscribers while Celtel and UTL share the rest. This has been one of the industries that have grown tremendously. Phone lines have grown from 42,500 to now over 1.6 million in a period of ten years.

8.7.4 **Contribution to GDP**

Because of volume of sales revenue, it is possible to see the contribution of the industry to national GDP. The real GDP growth rates in different sectors in the economy show that the transport and communications sector, which was among the smallest contributors in 1998/99, has continuously increased to be one of the main contributors (Table 8.6). While the national GDP has been growing at an average of 5% for the past five years, the communication sector has been growing, on average, at a rate of about 25% annually since 1998. Table 8.6 illustrates both the communication sector and its contribution to GDP.

Growth in the transport & communications services sector in Uganda has been driven mainly by expansion in the communications sector, with the major turning point being the year 1998, when MTN started operations. This growth is a result of the growth in competition through liberalization and privatization, coupled with greater innovation in product packaging due to increased competition to capture the various income brackets of the population. The latter is most evident in the cellular market.

Table 8.6: Contribution of the Telecommunications sector to GDP

	1999/00	*2000/01*	*2001/02*	*2002/03*
Total GDP (million Shs)	7,828,950	8,274,376	8,772,644	9,199,814
% Increase	5.9	5.7	6.0	4.9
Per Capita GDP	346,362	354,155	362,980	367,951
Exchange rate UgSh per 1US%	1,454.83	1,664.5	1,755.56	1,797
Communication sector GDP (Million shs)*	67,713	89,601	109,385	131,788
Communications sector GDP % Growth rate*	29.7	32.3	22.1	20.5
Communications sector Contribution/percentage Contribution to total GDP*	0.9	1.1	1.2	1.4

**This includes communications, multimedia industry and postal*

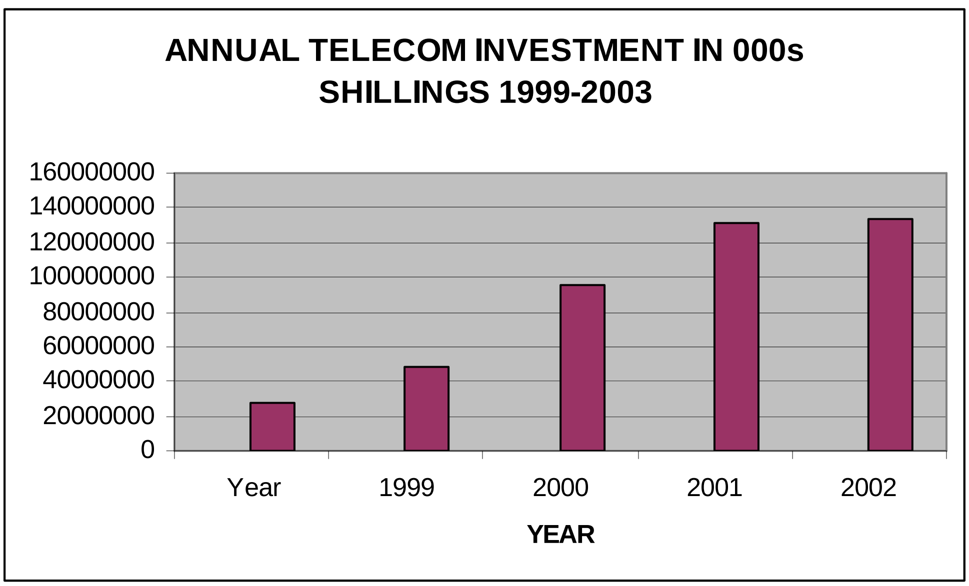
***Source**: Uganda Communications Commission*

The industry brought in its wake other businesses. Sale of mobile phones, handsets, mobile phone accessories, sale of airtime to phone users. Public pay phone operators have emerged, the advertising industry has benefited in different media, printed, electronic and outdoor.

a) Sector Investment

Investments in telecommunications infrastructure has also shown a steady increase over the years, rising from Uganda shillings 27.9 billion in 1999 to Uganda shillings 133.5 billion in 2003 (Uganda Communications Commission).

Figure 8.2

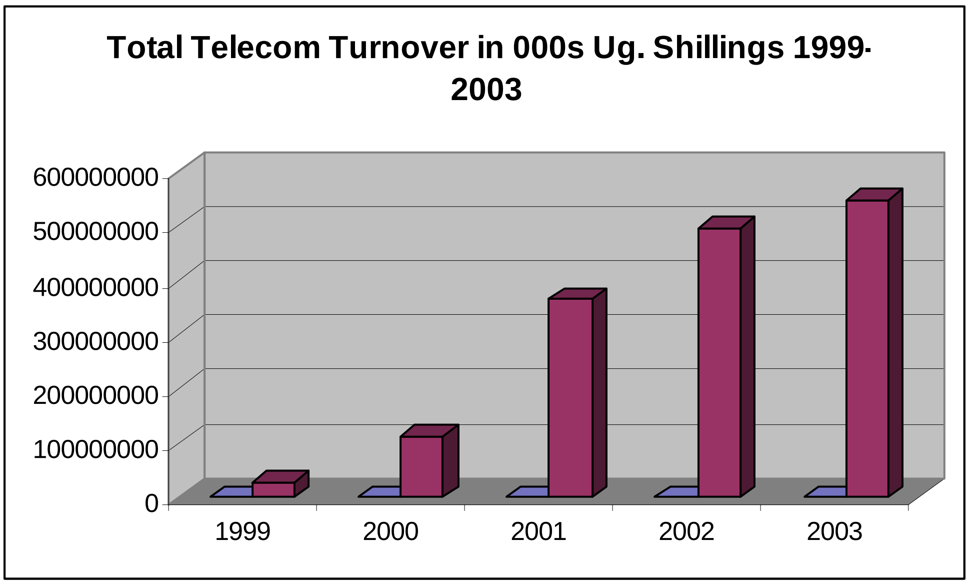


Source: *Uganda Communications Commission*

b) **Revenue**

The total revenues in the sector are over 20 times what they were five years ago with most of the revenue derived by the major operators.

Figure 8.3



***Source**: Uganda Communications Commission*

c) **Contribution to employment**

The sector has contributed to job creation. The direct employment is on a reducing scale due to competitive pressures and technological developments. Some companies like MTN are now outsourcing some of the services. From 1999 the sector has seen a rise in jobs created rising from 3,779 to 5,193 (June) 2004 in direct employment, while the indirect jobs rose from 37,790 to 129,825 in the same period.

Table 8.7: **Employment 1999-2004**

Year	Direct	Indirect
1999	3,779	37,790
2000	5,034	60,408
2001	5,710	85,650
2002	5,832	116, 640
2003	5,028	125,700
2004	5,193	129,825

8.8 The commercial banking sector

The commercial banking industry is an old industry which was rejuvenated as a result of the reforms in the economy and in the sector itself. It is very vulnerable to economic changes because it deals in money which is affected by inflation and ordinarily does not invest in fixed assets like land and buildings. The inflationary pressure of the 1970's and 1980's devastated the banking industry in the country. By 1986, inflation was over 230 percent per year.

8.8.1 Firm start-up

This is one of the oldest industries and the first bank to set up shop in the country was the Grindleys and National Bank that was established in 1920.

In 1970, Uganda had 290 branches. By 1980, there were six (6) banks in the country and the industry was dominated by the government owned Uganda Commercial Bank (UCB). It had over 40% of total deposits in the banking sector. Even the foreign banks were also partly owned by government. This was a result of the nationalization policies of the 1970s. By 1987 when the major economic policies were annouced, the industry had the following banks;

- Uganda Commercial Bank
- Barclays Bank
- Grindlays Bank
- Uganda Cooperative Bank
- Bank of Baroda
- Libyan Arab Uganda Development Bank

Table 8.8: Banks joining the industry after liberalization

		Date Found	**Owner Type**	**Founder**
1	International Credit Bank	1990	Portfolio	Katto
2	Teefe Bank	1989	Local Group	Group
3	Sembule Investment Bank	1990	Portfolio	Sembule
4	Crane Bank	1994	Portfolio	Ruperelia
5	Nile Bank	1987	Portfolio	Wavamunno
6	Greenland Bank	1996	Local Group	Group
7	Cairo International Bank	1995	Foreign	Foreign
8	Orient Bank	1989	Serial Entrepreneur	Morjaria
9	Trust Bank	1989	Local Group	Group
10	TransAfrica Bank	1990	Portfolio	Metha
11	Gold Trust Bank	1988	Portfolio	Alam
12	National Bank of Commerce	1992	Local Group	Several
13	DFCU	1998	Corporate	Corporate
14	Centenary Rural Development Bank	1992	Corporate	Corporate
15	Citibank	1999	Corporate	Corporate
16	Diamond Trust Bank	1995	Portfolio	Portfolio

Source: **Primary Data 2004**

The macro economic policies put in place included liberalization of financial markets, privatization and freeing of prices among others. This resulted in macro economic stability. Inflation declined from double digit to single digit rates. It declined from over 230 per cent per year to an average of five percent per year by the early 1990s. High inflation has a major negative impact on financial transactions and costs. Banks which hold customers' deposits and lend out money were major beneficiaries of the policy framework. At that time, lending interest rates were about 48% per year as an attempt to match the inflationary pressure (Bank of Uganda Annual Report 200). UCB, a government owned bank and the largest bank, had over 120 branches in the country. The liberalization of the sector and reduction in inflation created financial stability in the economy and caused new entrants in the industry and saw 16 new banks come up in the industry by 2000. By the time the study was concluded, there were 15 banks operating.

8.8.2 Role of entrepreneurs

Among the Banks started by portfolio entrepreneurs are Nile Bank, Wavamuno, Allied Bank, formerly Sembule Bank by Christopher Sembuya, International Credit Bank by Thomas Katto, Crane Bank by Sudhir Ruparelia, TransAfrica Bank by the Mehta Group of Companies, and Gold Trust Bank by Alam Group of Companies, and Diamond Trust Bank by the Aga Khan group. Interviews were held with only three of these portfolio entrepreneurs over this business. Attempts were made on numerous occasions to secure interviews with others but this was not possible. They started these banks as extensions of their business which they saw as an opportunity to fund their activities at a low cost and also to make profit. Portfolio entrepreneurs are said to be more alert to opportunity and it is not surprising that they were part of the major players to join the industry (Ucbasaran *et al*, 2003; Audretsch, 1993).

8.8.3 Industry growth

The industry has grown tremendously. The number of banks grew from six in 1980 to 19 in 1998. There are now 15 banks in operation (Table 8.9). The total deposit in the banking system grew from Shs.691 billion in 1989 to Shs.2595 billion in 2004.

Table 8.9 – Commercial banks

	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Total Deposits Ug.Shs. Billions	691	1040	1315	1475	1816	2210	2595
Total Advances Ug.Shs.	443	445	525	521	661	847	
Total Assets Ug.Shs.		1352	1845	2038	2456	2990	
No. Licensed Bank	19	17	17	17	15	15	

Source: *Bank of Uganda*

The financial sector presently (2005) comprises of 15 commercial banks with a network of 126 branches and 7 credit institutions with a network of 22 branches and four registered micro deposit taking institutions. The sector has witnessed major changes starting with macro economic policies of 1987 (Table 8.10). This attracted various entrants. However, in the late 1990s, there were several bank failures. Other changes include introduction of Automated Teller Machines (ATMS) and other products like salary loans.

Table 8.10 Commercial Banks in operation in 2005

	Institution / Bank	Date (first) Licensed	No. of Branches
1	*Stanbic Bank (formerly UCB)*	2002	68
2	*Standard Chartered Bank*	1969	6
3	*Barclays Bank*	1927	3
4	*Citi Bank*	1999	1
5	*Centenary Bank*	1992	18
6	*Bank of Baroda*	1969	6
7	*Crane Bank*	1994	2
8	*DFCU (Formerly Gold Trust)*	1985	4
9	*Orient Bank*	1991	6
10	*Nile Bank*	1987	3
11	*Allied Bank (Formerly Sembule)*	1991	3
12	*Diamond Trust Bank*	1995	1
13	*Tropical Bank (Formerly Libyan Arab)*	1972	3
14	*Cairo Bank*	1995	1
15	*National Bank of Commerce*	1992	1
	Total		126

Source: Bank of Uganda, 2003

The sector has a sub-sector known as the non-banking financial institution. This consists of credit institutions and the micro finance deposit taking institutions. At the time of the study, they were seven credit institutions and micro finance institutions (Table 8.11 and 8.12). The micro finance institutions were by the time of the study, not part of the regulated institutions but as the study was completed, a legislation to regulate it had been enacted before such institutions were registered.

Table 8.11: ***Registered credit institutions (*December 2005)**

Institution	Year established	No. of branches
Mercantile Credit Bank Ltd	1986	1
Stanhope Finance Co. Ltd	1997	2
Imperial Investment Finance Ltd	1997	1
Commercial Micro Finance Ltd	2000	7
Housing Finance Co. of Uganda Ltd	1967	2
Post Bank (U) Ltd	2002	20
Capital Finance Corporation	1995	1

***Source**:* Bank of Uganda

Table 8.12: ***Registered Micro Deposit taking Institutions in December 2005-***

Institution	Year registered	No. of branches and satellite offices
Finance Uganda Ltd	2004	7
Pride Micro Finance	2005	29
Uganda Micro Finance	2005	20
Uganda Finance Trust	2005	21

***Source**:* Bank of Uganda

8.8.4 Competition and shakeout

The banking industry is highly competitive. The competitive forces shaping it include barriers to entry due to capital requirements, competitive pressures resulting from low profitability as influenced by interest rates and the power of buyers of the banking products. Since the liberalization of the sector in 1986, 16 banks have been started. However, of these, six were closed for failing to meet the industry requirements on capital adequacy and lending. One of the banks was bought by another (Sembule) to form the Allied Bank after it had failed. Nile Bank was restructured extensively, Wavamunno is no longer the majority shareholder. Trust Bank, Gold Trust Bank and TransAfrica Bank were also bought by an existing but relatively new bank, DFCU. The biggest changes in the sector was the sale of the Uganda Commercial Bank (UCB), the country's then largest bank, then owned by government. UCB was initially bought by "Westmont" an allegedly Malaysian company that was subsequently found to have fronted for Uganda investors who owned a local bank, Greenland Bank (Bank of Uganda Reports). This was under the government's initiative of liberalization and privatization. UCB was subsequently seized by the Central Bank for violating capital adequacy and lending regulations. It was subsequently sold to Stanbic Bank of South Africa by the Central Bank. Stanbic was also a new bank that had joined the industry by buying out Grindlays Bank a few years earlier. UCB was the country's largest bank with branches all over the country. It was making losses and in line with the divesture policy of government, the bank was sold. The industry is going through a process of refinement (Keppler and Simone, 1993; Keppler, 1999)

Looking at the market share of different banks, there is a pattern that commercial banking is a corporate business. The shake-out of small banks is an indicator. The merger of small banks with existing corporate big brands also indicates the role of the corporate. From the Central Bank supervision reports, small banks appear to be in constant trouble. They may be finally shaken out of the market through mergers and acquisitions. The future of the sector looks like a few banks and several small niche players.

8.8.5 Contribution to growth

The role of commercial banks includes among others taking deposits, creating credit and availing a variety of services to customers. The growth of the number of banks and branches is a sign of contribution to the economy in terms of availing banking services. Banks create credit. The growth of deposits from UgShs.691 billion in 1998 to over UgShs.2,595billion in 2004 shows the banks contribution to the economy. Commercial banks, through lending, create additional deposits and of course help organizations identify investible funds. The growth in assets in the same period also shows a growth of investments in the economy. At the time of the study, the different banks had deposits and number of employees.

8.9 The Insurance Sector

8.9.1 Industry start-up

By 1982, there were only six Insurance Companies namely;

- East African General Insurance
- National Insurance Corporation
- Uganda American Insurance Company
- Jubilee insurance Company
- United Assurance Company
- British American Life Insurance Company

The sector suffered a set back from 1972 with the declaration of the economic war by Idi Amin. The economic war led to an exodus of foreigners and economic decline in the country. By 1980, the economy had contracted by about 25 per cent. The economic war led to a crisis of confidence in business generally and in the insurance sector particularly. The non-settlement of insured losses led to loss of faith in insurance. The inflation that followed also eroded life insurance values. Other factors that affected the sector include the 1987 currency reform which reduced policy values to 1/100th and the HIV/AIDS epidemic which has affected life insurance.

The macro economic policy framework put in place in 1987 was intended to reform and open up the economy. Indeed this happened to many sectors of the economy including insurance. By that time, the industry was dominated by National Insurance Company (NIC) and Uganda American Insurance Company (UAICO). NIC was wholly owned by government while UAICO was partly owned by government and some American institutional investors. NIC had over 50 percent of the market share. The liberalization of the sector brought in new players. The number had risen to 12 by 1990 and 27 by 1997.

8.9.2 Role of entrepreneurs

At the time the industry was being rejuvenated, NIC a fully government-owned company dominated the industry. This is a reflection of the policies then. The private sector started entering the industry as the economy was liberalized. Among the portfolio entrepreneurs interviewed the following entered the market, Sembuya founder of Sembule Steel Mills which founded Sembule Investment Bank and subsequently Pan World Insurance Company

(PWICO). The reason for establishing the insurance. Sembule Steel Mills, the parent company, imported numerous steel products and many items. They thus started the insurance business.

Other companies started by portfolio entrepreneurs include Statewide Insurance, East African Underwriters by the Madvahni Group, Jubilee Insurance by Aga Khan Group owner of Diamond trust Bank. Other are by individuals who were in the industry as managers.

According to Sembuya,

> *"We were importing a lot of merchandize and paying out large premiums to other insurance companies. Besides, many of our customers in Banks who borrowed and imported merchandize had to take out insurance. They insured with others. We thus decided to have our own company to service us at low premiums and also service our customers. Funds would be kept within the group"*.

PWICO rose to become the leading business insurance company by 1995. However, it was shaken out of the market and is now no longer one of the key players.

Imperial Insurance company is owned by Karim Hirji, a portfolio entrepreneur and owner of the Imperial Group of Companies. He also reported having started the business to take advantage of insuring in-house. Karim, who owns leading hotels in the country, is also a trader and imports large amounts of consumer commodities where he used to pay large amounts of consumer commodities where he used to pay large sums of money in premiums. By starting an insurance company, these revenues would stay in the business. Sudhir Ruparelia, also a portfolio entrepreneur, established Gold Star Insurance and is owner of Crane Forex Bureau and Crane Bank. His motivation to start-up the insurance company was to take advantage of business generated by his bank. The bank lent out money to traders who imported goods and insured them with other companies. By starting the insurance company the money would stay at "home".

8.9.3 Industry growth

By 1987, there were only eight insurance companies. As the economy grew, the industry also started growing. By 1997, the number of companies had grown to 27. This had however declined to 16 by 2003 and risen to 20 by 2005. The premium had however grown from Shs.3.8 billion in 1985 to Shs. 80billion in 2003.

In the initial years of growth, the industry attracted local firms. The existing foreign firm however consolidated themselves. NIC, the government corporation continued to dominate the industry with over 50% of the market share until 1997 when its market share started declining. By the time of conclusion of the study, NIC was in a fourth position.

Table 8.13: Insurance industry: Growth in number of companies and premiums

Year	No. of Companies	Premium (Shs '000)
1985	8	3,886,831
1986	8	8,147,472
1987	10	513,021
1988	10	1,022,660
1989	11	2,377,210
1990	12	4,432,065
1991	12	6,844,799
1992	15	10,489,595
1993	17	13,648,145
1996	22	20,042,734
1997	27	32,059,014
1998	19	32,870,080
1999	20	34,252,718
2000	18	39,140,050
2001	16	47,046,287
2002	17	53,979,958
2003	16	68,136,595
2004	20	80,754,846

Source: Uganda Insurance Commission

There was a currency reform in 1987 that truncated two zeros from the currency.

The industry also has other players who support it. This includes insurance brokers, agents, loss assessors, adjustors and surveyors besides the regulators. These have also been growing as in Table 8.13 below.

Table 8.14: Licensed brokers, Agents and Loss Assessors/Adjustors and Insurance Surveyors

Type of operation	**1997**	**1998**	**1999**	**2000**	**2001**
Brokers	30	28	30	32	28
Agents	89	170	233	236	236
Loss Assessors/Adjustors	6	11	13	11	10

8.9.4 **Competition and shake out**

The competition in the sector has been very intense. There are entry barriers in terms of the initial capital but this did not bar entry. The companies increased from six in 1982 to 27 in 1997. Compared to FM radios and forex bureaus where the capital requirements are small, of course the numbers look small. As a specialized sector with specific human resource requirements, the growth has been tremendous. While the number of companies reduced from the peak of 27 in 1997 to 19, it had increased marginally to 20 in 2004. The industry is still undergoing refinement and is yet to stabilize. Even with 20 companies, only five dominate the industry.

8.9.5 **Contribution to growth**

The premiums in the sector grew from Ug.Shs.3 billion in 1985 to over Ug.Shs.80 billion by 2005. Inflation in the period was reduced to about 5 percent per year showing real growth in the sector. The sector has contributed tremendously to growth in the economy.

Table 8.15: Insurance contribution to GDP

Year	Gross premium	GDP at current prices	Premiums as a percentage of GDP
2000	39,140	8,655,861	0.45
2001	47,220	9,251,899	0.51
2002	53,598	9,792,429	0.55
2003	64,798	11,634,441	0.56
2004	80,755	12,951,938	0.62

***Source**: Uganda Insurance Commission*

The contribution of insurance to GDP has been increasing over the period as reflected in the growth of the premium (See Table 8.13). Though by international standards, the ratio is still low. Premium as a percentage of GDP rose from 0.45 percent in 2000 to 0.62 in 2004. *See Table 8.15*.

Table 8.16: Insurance Brokers Performance:

Year	Income (Shs'000)
1997	1,601,491
1998	1,981,783
1999	2,607,545
2000	2,855,761
2001	3,481,601
2002	
2003	4,780,416
2004	5,894,713

Source**:** Uganda Insurance Commission

The industry as already stated creates other players, agents, brokers and the assessors and loss adjustors. The brokers also have an income stream from the premiums. Their earnings increased from Shs.1.6 billion in 1997 to Shs.5.9 billion in 2004. See Table 8.15. The section also creates jobs and the jobs in the industry which they contribute to the growth of the economy are in Table 8.16.

Table 8.17: Employment in the Insurance Industry

	1997	1998	1999	2000	2001	2002	2003	2004
Insurance companies	676	653	592	549	431	555	487	487
Brokers	170	159	181	214	198	190	199	189
Agents	89	170	233	236	238	248	302	310
Loss Assessors	12	22	26	22	24	-	-	-
Commission staff	8	10	11	11	13	14	15	15
Total	955	1014	1043	1032	904	1007	1003	1001

To understand the contribution of the insurance industry to the economy, reference must be made to what insurance is. Insurance is simply an avenue of minimizing risk. Entrepreneurs continually take risk through business start-up and diversification and by buying, producing and selling including shipping and storage, business is exposed to risk which is out of control of business. Insurance comes in to cushion the risk associated with business activity. Insurance thus makes an important contribution to economic growth.

8.10 Summary of Chapter

The purpose of this study was to establish whether a relationship existed between entrepreneurship and economic growth. In chapter six, it was established that entrepreneurship had a role in the process of growth. In chapter seven, the contribution of largescale portfolio entrepreneurs is ascertained. Schumpeter (1942) argued that growth was a result of the process of business start-up and closing, this is the process he called creative destruction which resulted into growth. With macro economic policies that encouragement investment, entrepreneurs will seize the opportunities that exist and start-up. This process may lead to start-up in a whole industry. This chapter revealed the following:

8.10.1 **Business start-up**

Entrepreneurs who perceive opportunities will sieze them and start-up business. These opportunities may be created by liberalization of the economy, technological developments and changes in population and incomes of the people. The findings from this study confirmed this and support findings by Taylor (1999). FM radio stations, TV stations, forex bureaus, banks, insurance companies and mobile phone service providers, among others, were opportunities that emerged in the Uganda economy and resulted into start-up. Portfolio entrepreneurs had a presence in most of these industries except mobile phone service provision which require large sums of money to enter.

8.10.2 **Industry formation**

Industries are groups of buyers, sellers and producers of products which are close substitutes. An industry may be created as a result of discovery of a certain technology or demand by consumers for a certain product or service. Depending on the attractiveness of the industry like profitability and the entry or exist barriers, an industry may be formed by a swarm-like activity of entrants who are seeking profit from the industry in the long run. In the study, it was observed that low entry barriers like capital required made an industry attractive. For this reason, the FM radio stations subsector, Forex bureaus, saw large number of entrants over a short period. On the other hand the telecom sector with heavy investment requirements has had a handful of operators. Industries like television had remote barriers of access to international programmes. The study noted that legislative restriction like in banks and forex bureaus limited entry. The regulator imposed restriction to entry for some time through legislative measures. This hampered growth.

8.10.3 **Industry growth**

Industries have life-cycles, they are born, grow, mature, saturate and may decline or even die. Industry growth depends on the size of the demand and the ability of the entrepreneurs who start-up to exploit the opportunities available. As the industry grows, it attracts entrants and barring legislative barriers, new entrants will attempt to enter the industry. In the study, forex bureaus and radio stations attracted a large number of entrants. However, growth of the sector was limited by the revenue of the industry. Many radio stations could not operate for long because they could not secure advertisement revenue. Industries like the telecom sector has seen phenomenonal growth but this growth was driven by competition. Banks and Insurance sectors also grew as a result of competition though the market size continues to be small. The industry growth changes are attributed to the entrepreneurial activities of start-up, closure and the desire to optimize resources.

8.11 Discoveries and conclusions

8.11.1 Portfolio entrepreneurs have a presence anywhere there is opportunity

Kizner (1979) argues that entrepreneurs are alert to opportunities and the majority of entrepreneurs are novice or serial entrepreneurs. Indeed there are nascent entrepreneurs. However, this study reveals that portfolio entrepreneurs are specifically more versatile. This confirms the view by Ucbasaran et al (2003). They entered all industries that had prospects for growth. At the commencement of the study, there was no knowledge of who were the players in the different sectors, however portfolio entrepreneurs were found active in all sectors that were growing. Besides those sectors studied, they were also active in floral culture, also a high growth industry. The study therefore concludes that portfolio entrepreneurs are more alert to opportunity than others and take more risk than others. Portfolio entrepreneurs are more likely to succeed because they have more experience, bigger and more effective networks and resources. They can also absorb losses more easily. This explains their multiplicity of businesses. In most of the industries studied, the same people had entered and played a role. Portfolio entrepreneurs will therefore have a bigger role in economic growth.

8.11.2 Entrepreneurs are the main source of business start-up in an industry

Of course business start-up is one of the key functions of entrepreneurs but it is true that non-entrepreneurs do also start-up. However, the initial entrants in a new or forming industry are largely entrepreneurs. This is because of numerous reasons but including alertness to opportunity (Kirzner, 1979), recognition of opportunity (Schumpeter, 1934), exploitation of opportunity (Drucker, 1985), and are driven by the desire for independence (Stanworth, 1985), the need for achievement (McClelland, 1961), and managerial experience overtime. Entry can be encouraged by accumulation of sufficient information about an industry. Portfolios are likely to enter an industry more quickly than others. Growth of an industry can be from new initiaties for example on telecom, banking and insurance. During the swarm-like activity, even non-entrepreneurs enter the industry but they are not the initial entrants. This also gives rise to the conclusion that portfolio entrepreneurs have more experience, tend to start more business than other entrepreneurs and it supports the views by Cross, (1981), Gudgin et al, (1979), Keeble et al, (1992a). Portfolio entrepreneurs also have the advantage of resources, networks and therefore tend to start and acquire more business than others.

8.11.3 Motivation for business start-up of portfolio entrepreneurs

The literature indicates that motivation for start-up is primarily independence and the desire to achieve besides making money in a supposedly profitable industry (Barley, 1989; Maffzinger et al, 1994). Initial start-up in an industry is due to perception of an opportunity. This assumes profitability but not necessarily. Subsequent entry into an industry by other start-ups is also supposed to be due to search for profitability. However, the study revealed the following:

a) A portfolio entrepreneur may start-up a business not for purposes of profitability but to link-up other businesses. For instance many portfolio entrepreneurs started cut-flower business with a view to creating a source of forex to fund imports of raw materials or goods for trade.

b) Many portfolio entrepreneurs started forex bureaus as a source of forex to finance their other business activities and also reduce the cost of buying forex from other sources.

c) Some portfolios started insurance companies to complement their banking businesses and retain the money in the group as they insured not only their goods and property but also those whom they lent money.

d) Entrepreneurs acquire business from others when they perceive those who are selling are doing so because of lack of profitability and believe they are buyers and can make money or may give them prestige by owning the business.

e) Some businesses especially by portfolios are started or expanded because of the desire to compete with other portfolios in the same industry. The hotel industry in Uganda illustrates this well.

f) Some portfolios start businesses because it is habitual, they just see an opportunity to do so. Most of the portfolio entrepreneurs interviewed said they looked around for profitable business to invest in.

g) Some portfolios start business to diversify once they see less growth in industries where they are. Many are in estates for security of investment and diversification.

8.11.4 Industry start-up growth patterns

Liberalization causes industry start-up. This confirms Taylor's (1999) conclusions. The forex market, radio stations, TV stations, telecom sector are products of the liberalization of the economy. But each industry has a unique start-up. Forex bureaus was legitimization of something that already existed. For an industry to be accepted it must have cognitive, social and political legitimization (Hannan and Carrol, 1992). It must be accepted by the public and government as appropriate and right. The forex bureau industry grew and was legitimized only after formal acceptance by government through legislation. The study thus concludes that start-up may take the form of new start-up, diversification, acquisition or merger that creates a new condition, market, product, process or procedure.

There is no specific industry growth pattern. Many factors drive the growth. Some industries grow quickly, other slowly. Some attract many players in the swarm-like activity, others do not. Some industries reach the maturity stage in a few years, others take a much longer time. The radio station, industry with fewer entry barriers, saw an exponential growth in start-up. In less than ten years, over 140 companies had been licensed, but only 26 were operating effectively. Television stations are relatively cheap to start also, but its entry barriers are in programmes run and the international competition that does not appear apparent. A few stations, about 20, have been licensed but only six operate continuously and successfully. The banking sector, which was being rejuvenated, appears to have reached a shake-out period in less than 15 years. Competition in the banking industry has changed and is driven by technology which appears a barrier to entry. As a global business, competition in the banking sector is also global and the industry appears to be dominated by global brands who are shaping the nature of the industry. This was observed in other areas like insurance, and the professions like accounting. The global brands were dominating the industries.

Competition can cause growth in an industry. The telecom sector and indeed the banking sector which had license barriers did not grow but once the licensing requirements were freed, there was entry and growth. Celtel was in the market for five years between 1993-1998 and had 12,000 subscribers. Opening up the market by licensing MTN increased subscribers tenfold in one year. Even Celtel has benefited from the growth driven by the competition.

8.11.5 Competition and shake out

Competition may not be industry wide. The intensity of competition tends to act as a barrier to entry and also gradually reduces margins. Economies of scale therefore become important. However, competition may not necessarily be industry-wide. For instance in the radio stations, competition is in the different market segments. This leaves room for start-ups in those segments where there is no competition, even if industrywide there appears to be too many players. Competition may also not be restricted to local industries, non-participating firms, say in the TV sector may be a source of competitive pressures even when they are not physically present or even aware of that fact. Local WBS TV station competes with BBC and CNN yet these broadcasters are not licensed locally.

Competition among business groups rather than within industry

Competition may be across business groups rather than within the same industry. For instance several portfolio entrepreneurs entered the forex bureaus, cut flower business, and are not competing within the industry but with other portfolio entrepreneurs. It appears Mukwano competes with Madhvani, Sudhir with Karim, among others.

Competition may not be between firms but between individuals. For instance several portfolio entrepreneurs compete among themselves in terms of property they own, businesses they own, and this acts as a driving force for the activities in their businesses.

Industry cycle stages are not water-tight

During the shake-out, firms close or merge or are bought by others. In the radio sector, various radio stations have exchanged hands rather than be closed. The shake-out is not a specific perid of an industry life cycle. It starts right from the time the industry commences. Some organizations never take off after entry and others close or abort or merge during the period of rapid development. Indeed some firms are also shaken out at any stage of the cycle.

The major shake-out in all industries takes place after a certain time period which varies from industry to industry. For instance, in the FM radios, the shake-out has been over the period of the industry life-cyle. For the forex bureaus, the shake-out was early in the industry formation stage. For the banking and insurance sub-sectors, the shake-out took about ten years to occur but there appears to be a new growth in the industry. So major shake-outs may occur more than once.

Legislative barriers may prevent competition

In industries with licensing regulations as entry barriers, the shake-out is delayed until such time as the competition is free. In the telecommunications sector, the number of companies is restricted due to licensing and due to exit barriers, even the poorly performing companies continue to stay in the industry. In forex bureaus, banks, the licensing barriers restricted competition.

8.11.6 The churn and economic growth

Schumpeter (1942) called it creative destruction a process in which, as new technologies emerge, they create new products, new processes, and new raw materials. These make existing ones obsolete. As existing products become obsolete, the organization that produce them wind up or are re-invented. The winding up leads to a loss of jobs. The new technologies create new jobs in that industry and others. In the telecom sector, analog technology with telephone wire became obsolete, replaced by digital technology. The UPTC was broken up into new units. This was death in the company. It was replaced with new organizations. The Uganda Communication Commission, Posta Uganda, Uganda Telecom and Posta Bank.

The new start ups definitely result into new jobs and new production. The closures however lead to job losses and loss in production. However, in the same industry, there may be a net loss in jobs but the new technology may give rise to new jobs resulting into a net gain in the jobs. Liberalization in the insurance sector saw the decline in importance of NIC as new organizations started. New jobs have been created since. This is growth. This is the paradox of growth emerging from job losses.

8.11.7 Entrepreneurship and economic growth

The churn creates economic growth. The churn is a reflection of the dynamism of entrepreneurial activity, perception of opportunity and start-up. The churn arises from new innovations in materials, products, and processes. These innovations kill existing firms or products or processes or raw materials. This is the creative destruction that Schumpeter described. It is entrepreneurs who drive economic activity and growth. This is a clear relation between entrepreneurship and economic growth.

CHAPTER 9

CONCLUSIONS AND RECOMMENDATIONS

9.1 Introduction

The study set out to gain insights into whether there is a relationship between entrepreneurship and growth and if there was, how. This is the first time this relationship has been examined systematically focusing on large-scale portfolio entrepreneurs and from a qualitative rather than quantitative point of view. Definitely the strength of this relationship cannot be measured using this approach. However, the nature and complexity of the relationship can be assessed and was indeed assessed. The study was able to provide new insights which should be used in the future to conduct quantitative deductive studies. Analysis of the findings led to the conclusion that there is a relationship between entrepreneurship and economic growth.

To be able to establish this, the study used the GEM model as its theoretical framework. It took Uganda as a "Laboratory" case. Uganda is a small country with a small economy and it is possible to identify the activities of individual entrepreneurs and relate them to growth. To be able to gain the insights, the study set the following objectives drawn from the GEM model

d) To establish the macro economic conditions in the county over the period 1962-2005, the growth patterns, types of opportunities and role of entrepreneurs in the economy. The findings in chapter six relate to this objective.

e) To establish the type of entrepreneurs who emerge in the economy to exploit the opportunities and their role in the economic growth process. The findings in chapter seven relate to this objective.

f) To establish the types of industries that emerged in the economy and the role of entrepreneurs in the start-up (firm birth) and death (closure), the churn and how the churn contributes to growth. The findings in chapter eight relate to this objective.

At the end of each chapter, conclusions are drawn from findings. These conclusions are recapped here for purposes of drawing overall conclusions and recommendations from the study.

9.2 Macro economic policy, economic growth and entrepreneurship

This study sought to establish whether a relationship existed between entrepreneurship and economic growth. This was against a background of known determinants of economic growth contained in the writings of classical and neo classical economists. The relationship had been alluded to by Schumpeter, Kirzner and Baumol but had not been tested empirically. The starting point of the study was to confirm this known relationship and find the role for entrepreneurship. The theoretical foundatation for this aspect is found in chapter two and this resulted from the question of what the macro economic policies were in the Uganda economy, the growth patterns, the opportunities and the role of the entrepreneur. Chapter six gives these findings summarized below.

9.2.1 Overall findings summary

The Ugandan economy (1962-2005) has had very distinct phases following the different political stewardships over the different periods. Specific growth patterns exist. The period 1962 to 1971 was a period of economic growth averaging 4.5 percent. The policies in place were largely free market as recommended by the World Bank in 1962 (Uganda National Report, 1962). At that time, government was also giving an increasing role to the Uganda Development Corporation, a state-owned corporation to spearhead industrial development. Entrepreneurs including the Madhvanis, Methas, were very active then (Fick, 2003). In the period 1972 to 1986, the policies were intended to be free market but the Idi Amin (1972-1979) and post Idi Amin (1980-1986) were characterized by insecurity and anarchy in government. The economy declined by 25 percent between 1972-1979 and 10% between 1981-1986. From 1987, the economy was grown by an average of five percent per year.

9.2.2 Conclusions

(i) **Macro economic policy is essential for economic growth**

Macro economic policy is essential but not the only condition for growth in an economy. Free market economic policies create conditions for growth but the creation of growth is from entrepreneurial activity. Over the different periods of Uganda's economic history when policy was free-market oriented and there was the right environment, there was growth (1962-1971 and 1986-2005). In periods when policy or the environment was not right, growth did not take place, period 1972-1986.

(ii) **Opportunities exist in all situations and entrepreneurs seek them**

Irrespective of the nature of macro economic policy, there will still be some opportunities and production of goods and services in an economy. There may be some growth in an economy. If there are no opportunities, the economy will be in an equilibrium with same level of production. The growth will come from those areas where opportunities exist because every situation creates some opportunities. This is evidenced from the period 1971 – 1980 when the Ugandan economy declined but despite the decline, there was some growth in some of the sectors in the economy. The coffee sector grew tremendously. If this had not grown, the decline would have been greater. Due to the "economic war" declared by Idi Amin in Uganda, the entrepreneurs then were expelled from the country and this depletion of the entrepreneurial class is reflected in the decline of the economy. This is a clear sign of the importance and role of entrepreneurship in the economy. This is in agreement with Schumpeter (1942) who calls entrepreneurs instigators of growth in an economy.

(iii) **Entrepreneurs will seek and sieze opportunities whatever the conditions**

The years of economic decline in the 1970s and early 1980s appear to reveal, at first sight, a relatively simple relationship between economic policy and economic growth. Idi Amin expelled the Asian community which at that time had the top entrepreneurs in the country, and the economy declined, a decline of 25 percent between 1972 and 1979 when Amin was ousted. But not all entrepreneurs were expelled or for that matter left. What happened was that conditions changed, there was anarchy and this simply made entrepreneurs more cautious but did not prevent them from searching for opportunities. There was some entrepreneurial activity attributed to those entrepreneurs that remained or emerged in the new conditions. A large number of people traded in coffee. But there were also opportunities as explained by Wavamunno, Mulwana and Kiwanuka (Oscar). Entrepreneurs lurk everywhere there are opportunities and will seize them.

An additional issue that emerged at this time was the policy of Africanization of entrepreneurship. When Amin expelled the Asian community, he opened up opportunity for indigenous African entrepreneurs to emerge. However, there were businesses handed out to supporters or to those who lined up. A large number never succeeded. Some of the indigenous African businesses today attribute their success to the opportunities that emerged as a result of the departure of the Asian community and reduction in competition. Indeed a few have become large and successful. However, the business landscape is filled with corpses of of African businesses that were inherited from the once thriving Asian-owned business. They were not entrepreneurs. You cannot force people to be entrepreneurs. The decline of towns all over the country, with no new investments or sizeable building from 1971 to 1990 is clear testimony. Jinja, Uganda's second largest town and once, East Africa's industrial town is an economic ghost town.

(iv) **Liberalization of an economy stimulates growth**

The political stability and the free market economic prices that started in the late 1980s has seen spectacular revival of the Ugandan economy with rapid economic growth. Numerous opportunities emerged from the privatization policy, technology, population growth and other global trends. This confirms Taylors (1999) findings about deregulation and growth. The policy of attracting investors into the country has also contributed to the growth. The result has been a rapid expansion of entrepreneurs and also the wealth of leading portfolio entrepreneurs. The leading portfolio entrepreneurs are associated with the revival of all the major industries which can be directly linked to Uganda's economic growth in the period.

9.3 The nature of contribution of portfolio entrepreneurs to economic growth and development

Chapter six confirms Schumpeters' view of an entrepreneur having a role in economic growth as instigator. However, who is this entrepreneur and how does he contribute to the growth process. The literature on entrepreneur defines different entrepreneurs (Webster, 1977; Birley and Westhead, 1993) and confirms their role as innovators (Kilby, 1971; Shapero, 1984) Chapter seven presents findings on the types of entrepreneurs who fit in the GEM model of existing large firms who are either corporate or portfolio entrepreneur owned. It also brings out the role of the entrepreneur in the economic growth and development process.

9.3.1 Introduction

The chapter findings were that large scale portfolio entrepreneurs were those that fitted in the GEM model as large firms besides the corporate. They are singled out for study from among the different types in the literature because they are said to make a larger contribution to growth than other types of entrepreneurs. (Rosa and Scot, 1999; Ucbasaran et al, 2003). But how precisely the individual entrepreneur contributes to the economy is a fuzzy issue in the literature. The main emphasis has been to measure the jobs generated, which is the main occupation in developed countries. The methodology used enabled the suggestion of new areas of measuring contributions to economic growth as a result of categorization of findings. The contribution of large portfolio entrepreneurs can be measured in a number of key areas. These include tax contribution, jobs, production of goods and services, start-up of industries, infrastructure development and the multiplier effect.

It should be noted that previous studies of portfolio entrepreneurs have not systematically examined their contributions to wealth creation although studies have concluded more generally that habitual entrepreneurs are an important group of entrepreneurs who make a fundamental contribution to wealth creation (Rosa and Scott,1999, Ucbasaran *et al,* 2003). This study is the first to break down this contribution. In particular the analysis of their contribution to infrastructure development is an innovation as this has not been previously considered. This may be because infrastructure is already around in mostly developed countries. For the poor developing countries, the development of infrastructure is a vital role.

9.3.2 Key areas of contribution

(a) **Tax contribution**

The service level of a government depends on how much tax a government has collected. Worldwide, the percentage of tax revenue to GDP is said to be in the region of 17-20 percent (Background to the Budget, 1999/00). Since 1986, the percentage of tax collection to GDP in Uganda has moved from about six percent of GDP to now about twelve percent. This is a result of increasing economic activity. While corporations have made a major contribution especially the oil companies and in recent years, the telecommunication companies, the large scale portfolio entrepreneurs are important and visible contributors to the government tax collection. This clearly contributes to growth.

(b) **New jobs generated**

It is true that small businesses generate jobs (Storey, 1994) but clearly portfolio entrepreneurs have a much more important role. This was earlier pointed out by Baumol (2003). The small-scale entrepreneurs usually supply large-scale businesses. Given the number of people starting busineses in Uganda three in every ten (GEM, Uganda, 2003) then largescale portfolio operations create more valuable jobs and with the multiplier effect, the portfolio entrepreneurs generate more jobs. These individual portfolio entrepreneurs thus create more jobs in their individual businesses which have a multiplier effect.

(c) **Business start-up**

Business start-up is an entrepreneurial activity, not previously or much acknowledged as a growth measure. The GEM studies popularize it as a measure of growth. It is said to be based on either people seeking to occupy themselves out of necessity, those seeking independence from being employed or those seeking to exploit opportunity (see Chapter 4). Start-up is a growth measure as it results in jobs and leads to the production of goods and services, the production of goods and services is itself a common measure of growth. Portfolio entrepreneurs have more experience, more resources than other types and therefore have the ability to perceive more opportunities. They therefore start-up more businesses than other entrepreneurs. The long-term consequences of their actions (multiplier, see below) are greater than several small businesses.

(d) **Production of goods and services**

Being large-scale operators, large-scale portfolio entrepreneurs contribute more to production of goods and services. Because they are large scale, they tend to produce at a lower cost than small-scale producers. They also compete with international brands, therefore their quality is also good. The hotel industry is an example. Karim and Sudhir portfolio who locally own

5-star hotels benchmark with Sheraton and Hilton in hotel operations yet other small-scale service providers do not have to.

(e) **Infrastructure development**

In the third world setting where infrastructure is usually poor and is not readily provided by government, large-scale portfolio entrepreneurs in Uganda have developed infrastructure as part of their business. This is contributing to development and supporting growth of other business. They have developed roads, schools, hospitals and support community efforts in improving society needs.

(f) **Multiplier effect**

Every business has a multiplier effect. However, the effect created by large-scale portfolio entrepreneurs is tremendous. In the cases studied, like the Madhvani, the impact of their operations is significant and cannot be compared to that of small business. Madhvani has over 4,000 outgrowers, produces electricity as a byproduct among others.

9.3.3 Conclusions

9.3.3.1 Relationship between entrepreneurship and economic growth

a. Portfolio entrepreneurs make important contributions to economic growth and are an important sub-group of entrepreneurs. They contribute greatly through start-ups, job creation and other areas as seen above. They create wealth in the process. This is in agreement with studies by Ucbasaran *et al* (2003) and Rosa and Scott (1999) who conclude that portfolio entrepreneurs make fundamental contributions to wealth creation.

b. Seen in the light of the overall growth in the economy and the sectors that were growing in the economy (see Chapter 8), were able to come to the conclusion that portfolio entrepreneurs are key orchestrators of growth in an economy. Their activities result in economic growth. There is then a relationship between entrepreneurship and economic growth.

c. Evidence from the increases in industrial production over the period shows that policy and the right environment create opportunity for increased production and growth. They are therefore important in business success and economic growth. However, it is entrepreneurs who actually cause the growth by perceiving opportunity and starting businesses to exploit the opportunity.

d. The contribution of the portfolio entrepreneurs to growth increases as a result of the multiplier effect of their activities. They create more jobs and infrastructure than other entrepreneurs or even corporations with a single business.

9.3.3.2 **Nature of Portfolio Entrepreneurs**

a) Successful portfolio entrepreneurs are likely to be 40 years of age and above, male, with wide experience in business. This defines habitual entrepreneurs.

b) Formal education is not an important driver of entrepreneurial activity of start-up although it is for continued long term management and continued successful performance of an organization. But it is not the entrepreneur who manage, they employ qualified managers to do so. Nonetheless, the portfolio entrepreneurs have wide experience in starting and managing business which is knowledge and possibly experience that management trainees look for in Business Schools. It helps create knowledge.

c) Evidence available is that portfolio entrepreneurs were active in most high growth industries and played a significant role. This leads to the conclusion that portfolio entrepreneurs are more alert to business opportunities in different sectors and will enter a sector if opportunities exist. This confirms earlier findings that portfolio entrepreneurs are more alert to opportunities and therefore have a greater contribution to growth through start-ups (Ucbasaran, 2008).

d) It is difficult to conclude from the evidence obtained whether portfolio businesses can survive after their founders. Three of the businesses surveyed, the Madhvani Group, Mehta Group, and Allam, showed evidence of survival. The rest of the companies had not shown evidence of successful succession. But most of them talked of plans of succession.

This calls for studies in large scale portfolio family businesses and succession planning.

e) The growth of the large portfolio entrepreneurs is important for the small businesses who start-up to supply them or to benefit from their activities. The outgrowers in Madhvani and Mukwano started business because of the latters' activities.

f) Portfolio entrepreneurs, contrary to existing findings, do not always start business just in pursuit of profit. Rosa (1998) affirms this view and argues that when the portfolio entrepreneur is successful, profit is not a reason to enter an industry. While profit is an important motivator, portfolio entrepreneurs will start business for other reasons including:

   i) lowering cost in their other businesses. By starting another business, say a forex bureau, it is done to complement and at the same time lower the cost of running the complimentary business. If business involves buying foreign exchange, starting a forex bureau cuts out or lowers its cost of buying the foreign exchange.

   ii) to compete with another portfolio entrepreneur. Portfolio entrepreneurs compete among themselves for economic and political power and influence. One portfolio may start a business simply to be better or have a better product than the other. The competition is thus in groups of business rather than individual elements of the business.

iii) in remembrance of their family members. One portfolio entrepreneur started a business in remembrance of his mother.

iv) the literature on the churn indicates that businesses are attracted to an industry if the industry has growing profitability and will exist if the profitability reduces. There is evidence of portfolios buying businesses which other portfolios think are unprofitable. The case of Sanyu Radio and Dembe Radio demonstrate this. The two who bought, Ruparelia and Bitature respectively, appear to have bought simply to add to their lists of business.

9.4 Industry formation and the Churn

9.4.1 Introduction

The third objective of the study was to examine the process of firm birth (start-up) and death (closure), also called the churn and assess the role of entrepreneurs and how the churn contributes to economic growth. It was Schumpeter who referred to the churn as the creative destruction process. He argued that the process of new start-ups as they replaced those firms that exited an industry due to technological and other causes resulted into growth.

Chapter Eight discusses the findings related to this objective. It brings out the areas where growth was taking place in the economy. The most visible ones were forex bureaus, FM radio stations, television, telecommunications, banking and insurance sectors. The industry formation growth and shake-out is traced and the role of entrepreneurs is noted. Most important the chapter brings out the growth that emerges from the entrepreneurial activity of start-up.

9.4.2 Nature of the churn

In the GEM model, economic growth does not occur as a result of entrepreneurial activity. According to Reynolds et al (1995), economic growth is the net gain, if any, of the volatile competitive process in which firms are born and die. There is no growth if there is no net gain. Our findings however do not support this view. True, the business churn represents the volatility arising from the start-up and exits of firms in an industry. Start-up is a growth measure and it represents growth with new jobs and production of goods and services. Business failure which leads to exit of a firm does not necessarily lead to decline in growth unless if it is the failure or decline of an industry arising from changes in technology. The specific relocation of industries from Western countries to Asian countries was a volatile occurance that led to closure in a geographical area and opening up in another geographical area, and growth in the latter and decline in the former. These were unique circumstances. The creative destruction proposed by Schumpeter is a result of new technology or other competitive forces in an industry leading to entry of new firms and as old ones exit. Churn however may not involve new firms, it may involve simply exiting firms as they exit at a point in time.

9.4.3 **Different types of churn**

Several issues emerge from these findings especially as a result of the acivities of the portfolio entrepreneurs. The decision to start a business is that of an entrepreneur or entrepreneurial team. The start-up results in establishing a firm. The firm may die or exit an industry but the entrepreneur does not “die” though he exits an industry by the firm exiting. The entrepreneur may re-enter the industry through another firm. Or the entrepreneur may start another business in another industry. There is therefore a difference between the business churn and the entrepreneur churn. Another discovery is that even with the “portfolio” of a portfolio entrepreneur’s business, a churn may be prevalent. We are thus able to distinguish between business churn, entrepreneur churn and churn within the business portfolio. Business churn is the birth and death of businesses (firms) in an industry or an economy. This results from competitive forces in an industry, primarily technology. Entrepreneur churn is the entry and exit decisions of an entrepreneur in an industry. The exit is not necessarily a failure, it may simply be a re-alignment of opportunities. The “portfolio” churn is the addition or reduction of the business to and from an existing number “portfolio” of businesses of a portfolio entrepreneur.

9.4.4 **The churn and economic growth**

The study revealed that the liberalization of the Uganda economy in 1987 that was followed with new different legislation created new opportunities. These new opportunities (Chapter 8) led to new start-ups. Those who perceived the opportunities started first. As the market grew, many new firms joined the industry and the industry grew. As the volatility increased due to competition, some firms exited certain industries. This exit did not result into reduction in production volume but where exit was a result of inability to adopt to technology, new firms replaced those that existed either in the same industry or a new industry being formed. In chapter Eight, we see that while over 200 forex bureaus were licensed at the time of the study of the section, less than 75 bureaus were in operation. Out of the 140 stations that had been licensed only about 26 were actually broadcasting. In the banking and insurance sectors many new firms had been licensed and several had closed. Beneath this activity was economic growth

In most of these industries, portfolio entrepreneurs were particularly alert to the opportunities that emerged and they entered many of the profitable industries. The competition in most industries has been intense, especially in those industries where the entry and exit barriers are nor prevalent. They had a presence in all industries except the telecom sector.

The business churn represents business volatility arising from business start-up and business failure. Beneath this activity is economic growth. Start-up is attributed to entrepreneurs, of course so is the decision to close a business or exit an industry. The analysis in Chapter 8 revealed that macro economic policy and legislation along with the environment, created opportunities for growth of new industries and rejuvenation of old ones. Start-ups are a result of perception of opportunities and deaths are a result of the competitive shake-out in an industry.

9.5 Discoveries and conclusions

9.5.1 Portfolio entrepreneurs are more alert to opportunities and start more business

Entrepreneurs are alert to opportunities and exploit them. Numerically in any economy, the majority of entrepreneurs are novice or serial entrepreneurs. Indeed there are nascent entrepreneurs. However, the study reveals that portfolio entrepreneurs are specifically more versatile in perceiving and exploiting opportunities. In Uganda, as stated, they entered all industries that had prospects of growth and had no entry barriers they could not overcome. Internationally, Richard Branson in the UK and Tata in India are good examples. It is therefore reasonable to conclude that portfolio entrepreneurs are more alert to opportunity than others and take more risk than others as they start new businesses. The fact that they have multiple businesses is an indicator of multiple start-ups. This explains their multiplicity of businesses.

Entrepreneurs are largely responsible for start-up of business because of numerous reasons but including alertness to opportunity (Kizner, 1979), recognition of opportunity (Schumpeter, 1943), exploitation of opportunity (Drucker, 1985), and driven by the desire for independence (Stanworth et al, 1989), the need for achievement (McClelland, 1966), and managerial experience overtime. Portfolio entrepreneurs start more business than others.

This leads to the conclusion that portfolio entrepreneurs have more experience, tend to start more business than other entrepreneurs and it supports the views by Cross (1981), Gudgin et al (1979), Keeble et al (1992a).

9.5.2 Motivation for business start-up of portfolio entrepreneurs

The literature indicates that motivation for start-up is primarily independence and the desire to achieve besides making money in a supposedly profitable industry. Initial start-up in an industry is due to perception of an opportunity. This assumes profitability. Subsequent entry into an industry by other start-ups is also supposed to be due to profitability. However, in the study the following was discovered:

a) A portfolio may start-up a business not for purposes of profitability but to link-up other businesses. For instance many portfolio entrepreneurs started cut-flower businesses with a view to creating a source of forex to fund imports of raw materials or goods for trade.

b) Many portfolios started forex bureaus as a source of forex to finance their other business activities and lower the cost of procuring foreign exchange from other business people.

c) Some portfolios started insurance companies to complement their banking businesses and retain the money in the group as they insured not only their goods and property but also those whom they lent money.

d) Entrepreneurs acquire business from others when they perceive those who are selling are doing so because of a lack of profitability.

e) Some businesses especially by portfolios are started or expanded because of the desire to compete with other portfolios in the same industry for example the case of the hotel industry in Uganda.

9.5.3 Industry growth patterns

Liberalization of the Uganda economy was a major force in business start up and subsequent industry formation or rejuvenation. Radio, television, banking, telecommunication, forex bureaus saw entry of many entrepreneurs as a result of liberalization. Even technological developments aided the start-up or entry into an industry. The growth patterns of industries differ from industry to industry. Industries may grow rapidly and have the Schumpeterian swarm-like activity and they have a quick shake-out or a gradual one. The radio station industry had an exponential rise in start-ups and a high disbanding rate. In less than 10 years, out of the 120 companies licensed, only about 12 were effectively in operation. Barriers to entry like licensing and heavy capital investment can allow high industry growth like the telecommunications companies, however, they cause higher prices.

There is no common pattern of growth in industries. The forex bureau and the FM radio station sectors appear to have reached a shake-out period within a 10-year period. This is despite the low entry barriers. The commercial banking sector and the insurance sector appear to have also reached a shake-out period in about 10 years. Despite these apparent peaks, there are more new entrants. At the time of finalizing the thesis, an additional 14 radio stations had been licensed and two additional banks had been licensed including the Kenya Commercial Bank. This means the first shake out may be a partial one and that there may be more than one shake-out in an industry. The telecommunications sector on the other hand, due to entry barriers, appears not to have reached the shake-out period yet and may not reach it in the near future. Instead, there is potential for entry as the industry grows. At the time of completion of the study, two new companies Warid and HITS Telecom had entered the industry. These were still corporate entries.

9.5.4 Competition and shake-out

a) The intensity of competition tends to act as a barrier to entry and also gradually reduces margins. This confirms to Porter's five forces model arguments. Economies of scale therefore become important. Firms need to grow bigger to gain the advantage of scale and be able to compete. However, competition may not necessarily be industry-wide. For instance in the radio stations, competition was found to be in the different market segments, this means that industry competition may not necessarily be a barrier to entry and may affect different market segments differently.

b) Competition may be across business groups rather than within the same industry. For instance several portfolio entrepreneurs entered the forex bureau and cut-flower business, and are not competing within the industry but with other portfolio entrepreneurs on how many businesses they may own and run and the prestige that goes with being in that kind of business.

c) Competition may not be between firms but between individuals. For instance, as stated above several portfolio entrepreneurs compete among themselves additionally in terms of property they own, businesses they own, and this acts as a driving force for the activities in their businesses. As already mentioned, they may be seeking prestige and leadership in owning the largest portfolio of businesses.

d) During the shake-out, firms close or merge or are bought by others. In the radio sector, various radio stations have exchanged hands rather than being closed. The shake-out is not a distinct phase in the industry life cycle as described by Porter(1980) and Thompson and Strickland (1987). The shake-out starts right from the time the industry commences. Some organizations never take off after entry and others close or abort or merge during the period of rapid development. Indeed some firms are also shaken-out during the maturity and saturation stage.

For instance, in the FM radio stations, the shake-out has been since the industry was formed over the period of the industry. For the forex bureau, the shake-out was early in the industry formation stage. For the insurance companies, the shake out took about 10 years to start but there appears to be a new growth in the industry. As earlier stated, there may be more than one shakeout in an industry.

e) Licensing regulations are artificial barriers to entry and the shake-out is put off until such time as the competition is free. In the telecommunications sector, the number of companies was restricted due to licensing. This combines with the heavy investment entry and exist barriers. Poorly performing companies continue to stay in the industry because of legislation, this was the case of Celtel at some stage. At the time of writing the report after the limited protection period in the telecom sector, two new mobile phone companies, WARID and HIT Telecom had been licensed.

9.5.5 The churn and economic growth

Schumpeter called it creative destruction. A process in which, as new technologies emerge, they create new products, new processes, and new raw materials. These make existing ones obsolete. As existing ones become obsolete, organizations wind up or are re-invented. The winding up leads to a loss of jobs. The new technologies create new jobs in that industry and others. Digital technology in the telecommunication sector replaced anolog and created a new market. Telephone subscribers have increased from 40,000 to almost two million in 10 years (1963-2003). Liberalization and technological development has seen growth in the broadcasting sector result into licensing of over 200 radio stations but many have been shaken out yet the revenues continued to grow. Automatic Teller Machine (ATM) technology saw the number of jobs in the banking sector reduce yet banks have grown in number creating more jobs in the sector and higher deposits and profits. There are more banks than in 1986 and more deposits yet banks like the former UCB, Barclays, closed down branches and shed jobs.

These new start-ups have created jobs while the closure either due to obsolete technology or shake-out has created jobs losses. But the sectors and the overall economy has been growing. This is the paradox that befell the job losses in any economy there is growth. And as McTeer (1992) argued, the new jobs are not easily seen but job losses are.

Business churn creates economic growth. This churn is a reflection of the dynamism of entrepreneurial activity, perception of opportunity and start-up. The churn arises from new innovations in materials, products, and processes. These innovations kill existing firms or products or processes or raw materials. It can also kill off an industry. This is the creative destruction that Schumpeter (1934) describes. It is entrepreneurs who drive economic activity and growth. The analysis in Chapter Six revealed a positive relationship between economic growth and policy. It also pointed to a relationship between growth and entrepreneurship but this was not concrete. In the study, we see a relationship between entrepreneurship and growth is observed. The activities of the portfolio entrepreneur leads to production and job creation.

9.6 Implications from the findings

The purpose of this section is to examine more generally the implications of the study and its findings, to both entrepreneurship and economic theory and practice and to research in entrepreneurship. This study has been inductive and exploratory. It followed the GEM studies and took out those aspects that had not been studied. It is an attempt to empirically establish whether a relationship exists between entrepreneurship and economic growth. It was primarily concerned with finding out whether a relationship existed rather than make a conclusion on the nature of the relationship. The study thus has implications on the GEM studies, entrepreneurship theory and economic theory. Given the methodology adopted in conducting the research, the findings also have methodogical implications. The findings have lessons for both researchers and policy makers given the important area of study that concerns transforming lives of millions of people through economic growth and development.

9.6.1 Implications to the GEM studies

The GEM studies is one of the first attempts to empirically study the relationship between entrepreneurship and growth. In the model, they attribute economic growth to the national and entrepreneurial framework conditions. In their model, figure 2, *chapter 2*, they have so far studied only the micro and small and medium size firms in various national surveys. They have not made any attempt to study the major established firms and the churn. This is the gap that this particular study sought to fill. The study has demonstrated that large scale existing firms are important in influencing economic growth. And indeed it has been possible to examine the role of portfolio entrepreneurs and note that they are even more important not only in GEM model but in the economy and in the process of economic growth. The GEM studies mention the churn but this too has not been studied. This is the description of Schumpeters' creative destruction. This study was able to examine the churn and confirm that it is an important factor in the growth process. The churn highlights business births in form of start-up and death in form of exit, changing hands or mergers as a process that results into growth.

The study however, is able to distinguish different churns, three types are identified. One is the industry churn which is the entry and exit of firms in an industry, the churn of entrepreneurs (not firms) which is the entry and exit of a particular entrepreneur in a specific industry without the firm exiting the industry. This is the case of change in hands of radio stations and some banks. The portfolio founders/owners sold and left but the firm stayed. There is also the churn within the business "portfolio" of the portfolio entrepreneur's businesses. In this case, the entrepreneur closes or sales a particular business taking it out of his "portfolio" of businesses. These findings are important and require additional studies to explore their importance of the different types of churn.

There is a degree of fragility about the continuation of business of portfolio entrepreneurs. Some of them convert businesses from family business to corporate to ensure survival after the founder. In the study, only a few entrepreneurs were addressing succession issues. How does succession in portfolio entrepreneurs business after the survival of the firms and thus the churn? Is there another condition of factors beside what GEM models as a requirement for continuity and success of firms that will ensure survival and contribution to economic growth. Again this calls for additional studies and possible changes in the GEM model.

9.6.2 Implications to entrepreneurship theory

The literature on entrepreneurship is still in its early stages of concretising the knowledge based on theory. It is for this reason that such inductive studies are important so as to contribute to theory generation. This study has indeed made some discoveries which if deductive studies are made will contribute to generalizations and development of knowledge. The summary of findings in the different chapters, six, seven and eight has led to some conclusions. The contribution this study makes to theory includes the following:

a) It is the entrepreneur who, in different conditions, will seek opportunities and exploit them through business start-up. In chapter six, the study noted that the departure of the Asian community who dominated trade and to some extent industry in Uganda, led to firm closure and a decline in the economy. But this did not stop the economy functioning nor did it stop entrepreneurs from seeking opportunity. Entrepreneurs are therefore very important in the growth process as evident from chapter six, the departure of one group and led to the emergence of others.

b) As noted in chapter seven and eight and summarized above, portfolio entrepreneurs are more alert to opportunities but also seek and start-up more businesses than other groups of entrepreneurs. This is because of their experience, knowledge, human capital, networks and finances that they have accumulated over the years.

c) Large scale portfolio entrepreneurs tend to be male, over fourty years, with wide experience in business. Successful multiple start-ups that are successful and growing take time.

d) Motivation for start-up in the literature has been anchored in the economic, physchological and social domains. This study however, reveals that for portfolio entrepreneur start-up especially for subsequent business may not necessarily be motivated by the above. Prestige, family, desire to compete with other, portfolio and cashflow may be reasons for start-up. There is need for further study in these findings.

e) Large portfolio entrepreneurs are a key instigator of economic growth through start-up, production of goods and services, jobs created, among other measures, but they also contribute to economic development through their large tax contribution, infrastructure development and the multiplier effect.

f) Portfolio entrepreneurs are important players in the churn, they optimize it by joining and leaving at the right time. They are not pushed out of the businesses in the shake-out. They either sale the business or re-arrange the portfolio of their businesses. The study distinguishes industry churn portfolio churn and churn of portfolios “portfolio” of business.

9.6.3 Implications to economic theory

Mainstream economics did not mention the entrepreneur as a factor in the economic growth process. Adam Smith and the classical economists argued that free markets and therefore economic policy was key to growth. Alfred Marshal and the neo-classical economists agreed with Adam Smiths’ School but added government action. Most recent economists have added governance, institutions and entrepreneurship. Economic growth has been modeled by Solow (1956) and Romer (1986) among others. In their production function, entrepreneurship is not a factor.

Solow (1956) models growth with the production function as $Y=F(K, L, t)$. According to Solow, the derivative of $Y(t)$ is non negative. An economy will grow even if there is no increase in K and L. This increase is attributed to technological development denoted by A, $Y(t)=F[K(t), A(t), L(t)]$ where $Y(t)$

is a function of K(t), A(t) and L(t). Growth in Solow's model is exogenous. Solow's model is improved by Romer in 1986 when he introduced knowledge in the model $Y=[(1-ak)^{\infty}(A(1-aL)L)^{1-\infty}0<a<1$. aK is the fraction of capital used to R+D and aL is the fraction of labour used to R+D.

Romer assumes that growth in the economy is a result of knowledge which emerges from research and development. These growth models however, do not take into consideration macro economic policy. It is assumed. However, they also do not refer to entrepreneurship at all. The technological development in Solow's model and knowledge in Romer's model are what Audretsch and Keibach (2004) call entrepreneurial capital. Entrepreneurship has thus all along existed in the production function and even in those two models, it is the key instigator. Technological developments are innovations, which Schumpeter attributes to entrepreneurs. Knowledge confirms Kirzners' (1979) view of possession of information that enables entrepreneurs to exploit opportunities. These are proxies of entrepreneurship in both Solow's and Romer's models. The study therefore proposes that entrepreneurship, represented by superior knowledge, innovations and a moderate risk taking nature, are a key determinant of growth along with the traditional elements of labour and capital.

The findings lead to the conclusion that a relationship exists between entrepreneurship and economic growth. The Uganda economy was liberalized starting in 1987. Macro economic policy that favours free market forces was announced. Enabling legislation has been enacted over time. These initiatives on their own cannot cause growth. There must be an entrepreneur who perceives this opportunity, starts a business and exploits that opportunity. It is the business start-up that creates jobs and production of goods and or services and growth. While that relationship exists, the study also comes to some conclusions that policy and government support sets the framework in which growth can take place but the growth is caused by entrepreneurs through start-up, job creation among other measures as is evidenced from the contribution of the portfolio entrepreneurs. Government creates conditions for opportunities to occur but somebody must spot them and translate them into growth through start-up and organization of actual production activities.

Looking at economic development, which is a wider term than growth and involves the redistribution mechanism, the study also leads to the conclusion that entrepreneurship causes economic development. Entrepreneurs contribute tax revenue to government which are used for redistribution. They also contribute through construction of infrastructure. The economics literature needs to take note of the role of the entrepreneur manifested through these contributions. However, further studies are required in this area.

9.7 Methodological findings

Inductive studies allow usage of both qualitative and quantitative approaches in conducting research. This study was inductive and exploratory because of the dearth of theory and empirical studies to explore the relationship between entrepreneurship and economic growth. Inductive studies generate insights into phenomena and help in building theory and it was only appropriate that this be adopted to enable us gain insights into the phenomena. Qualitative studies lead to adoption case study approaches which enable the research focus on a person or organization. Having found the small number of portfolio entrepreneurs, the case study was most appropriate design to adopt. The unstructured interviews combined with observations and complemented with secondary sources enabled the research delve into the life of the portfolio entrepreneur. The methodology thus enabled the research to get information that was necessary to arrive at the conclusions that have been drawn above.

While laboratory conditions are criticized for creating artificial conditions and thereafter unable to get natural responses, the "laboratory" conditions in this study are not as such but resemble them. As indicated, Uganda is a small country where, like a small town everybody knows everybody. Besides the fact that the Uganda economy had been in decline for 15 years, the activities of growth and who caused the growth or who was associated with the growth could be seen as in laboratory conditions. This resemblance did not make the case a laboratory case where experiments are best suited to be done. Nothing was changed in the economy or set up.

Qualitative studies have however invariably been criticized. The usage of case studies tend to limit the number of respondents as the sample selection procedures are less scientific. Besides the researchers belief and own interpetations especially of text, many create baised results. Results from quantitative studies with random sample and a more scientific approach to data collection and interpretation tends to be more reliable. Quantitative researches tend to be capable of being generalized. So the issue of generalization is easirer. In qualitative studies, issue of reliability and replicability are elusive. This touches all issues of validity. Qualitative studies are designed to generate new insight and therefore cannot be relied upon for generalization across a population. This means that it may not be possible to generalize the role of portfolio entrepreneurs in economic growth in developing countries or for that matter in Africa.

Deductive studies can now be conducted in the relationship to verify the insights that have been gained. However, the matter is still more complex. There is need to study further how the entrepreneurs actually perceive these opportunities. There is need to study further why they don't enter certain industries, say mobile telephone services. There is also need to study further about the different types of churn. Having gained insight in these areas, deductive studies can then be undertaken to address more adduce on these relationships.

9.8 Policy implications of the study

The study sought to establish whether a relationship existed between entrepreneurship and economic growth. The motivation of the study was in whether besides the known macro economic policy and right environment there were other factors that could either sustain, cause or accelerate growth especially in the developing countries where unemployment and mass poverty are still phenomenal problems.

In the case study of Uganda, poverty is still rampant despite the pro-investment policies of free markets, privatization and liberalization of markets and many sectors of the economy. The Uganda government has since 1987 continued to evolve and implement those such policies. Government also realized that despite its policies and the five percent average growth rate per year for the last 18 years, poverty was still a problem. Government has evolved policies with assistance from the World Bank that are intended to address this. The Poverty Eradication Action Plan (PEAP) of 1997, the Plan for Modernization of Agriculture of 2000 that have been supported by the World Bank have been implemented (Background to the National Budget 2004/5). There has also been *"Boona Bagagawale"*, *"Prosperity for all"* programme which followed the *"Entandikwa"* (Start-up capital) programme which have been criticized by the World Bank for distorting markets. These are government programmes aimed at poverty reduction but have involved giving money and implements to farmers to improve their productivity. These programmes have been ridden with problems. The peasant farmers think government is giving them a gift, the schemes too have been prone to corruption, the people who administer them have tended to steal the money (Synder, 2000). Besides, even where they work, the interest rate is lower than the market thus distorting the free markets.

What emerges from the study is that policy is important for growth. More specifically macro economic policies that support free markets are very important for growth. The policy of privatization where government divested from business was good for the Uganda economy. It opened up opportunities that were seized by entrepreneurs resulting into numerous start-ups, jobs and other growth measures. World wide, governments have set up agencies to attract investments. Entrepreneurs will go into countries and markets where there are opportunities. This has been the case in Uganda. The Uganda Investment Authority (Chapter 6) was established for the purpose. A policy to attract investment attracts entregineous and it promotes growth.

A lot of emphasis has been placed on developing small scale enterprises. Many policies have been geared towards their promotion and development (Synder, 2000). The various schemes, Boona Bagagawale, PEAP, Plan for Modernization of Agriculture have all been geared towards promoting enterprise within the poorer sections of society (Background to the National Budget 2004/5).

For large scale enterprises, it is the Investment Act that is used to promote investments by large scale portfolio entrepreneurs. The findings from the study bring out the importance of large scale portfolio entrepreneurs. The Madhvani group lost their empire in 1971 regained it in 1985. At that time there were only 5,000 acres of sugar cane. They had about 4,000 employees.

There were no outgrowers then. By 2005, Madhvani group had over 12,000 employees (of whom about 8,000 were in the sugar business), and 4,000 outgrowers *(Chapter 7)*.

The various portfolio entrepreneurs that were studied have created numerous quality jobs over the year. Before 1987, Uganda had a shortage of soap, soft drinks, bread, sugar, among other items. This is no longer the case *(Chapter 7)*. To produce these, large investments have been made among others by these portfolio entrepreneurs. These large portfolio entrepreneurs are important contributors to the country's government tax revenue. They contribute to the funds used by government to provide infrastructure and even to support small business.

It is therefore important that government pays attention to the large scale portfolio entrepreneurs. This should be through infrastructure development to support business. This includes development of roads, electricity among others. Government should evolve tax policies that favour growth of large scale business. For instance lowering corporation tax. Currently the corporation tax rate is 30 percent. A lower rate would be more attractive.

While it is important to support small business growth, it is more important to support large scale business because they cause start-up of more small businesses than the effort made in supporting small business. Even for small business, they will benefit from infrastructure development and other facilities and laws.

9.9 Recommendations

The study went out to establish whether a relationship existed between entrepreneurship and economic growth. The evidence from the study reveals that the relationship exists. To be able to establish this relationship large scale portfolio entrepreneurs were identified as a unit of study.

The study established that large scale portfolio entrepreneurs are more important than any other type of entrepreneurs because they have more resources, start more businesses and have a more important role to play in the economic growth process. The study confirms Schumpeter's creative destruction, the churn and how it causes growth in an economy.

The study also confirms that macro economic policy, the right environment are important determinants of economic growth. From the conclusions that have been drawn from the findings the following recommendations are made:

a) **Economic policy**

Governments must ensure that macro-economic policy in the country supports growth and this is primarily free-market economic policies that involve liberalization of markets, privatization and freeing of prices. It is clear that governments cannot run business.

b) **Enabling legislation**

Policy is important to create opportunities that are sought by entrepreneurs but without an enabling legislation, entrepreneurs will not take the necessary initiative to start business. It is therefore recommended that enabling laws be put in place to enable entrepreneurs pursue the opportunities they perceive in the environment. The legislation should also provide for the regulation of the sector.

c) **Infrastructure development**

Economic growth in an economy is instigated by entrepreneurs through business start-up *(Chapter 7 and 8)*. However, there is some investment in an economy that can not be made by organizations. This includes roads, dams, electricity and telecommunication infrastructure. The study noted that some portfolio entrepreneurs had developed some infrastructure. However, this infrastructure is a cost which cannot be associated with a sales unit and therefore too costly for business units. Smaller units cannot afford it. Governments therefore must plan and create the necessary infrastructure that will develop the necessary business.

d) **Incentives for large scale entrepreneurs**

The study reveals that large scale entrepreneurs have a major contribution they make to both economic growth and development. Some of them like the Madhvani group have invested over $50million in a single unit to expand production. Such units at times require support from governments to borrow from banks abroad or from multi-lateral institutions like the Africa Development Bank and Islamic Development Bank. Governments should support firms to enable them secure the necessary funds especially where such funds cannot be obtained easily in the local financial markets.

e) **Further studies**

Both inductive and deductive studies are still required to explore and confirm the relationship between entrepreneurship and economic growth. This study has been able to establish that a relationship exists between entrepreneurship and economic growth. However, it is not able to establish whether entrepreneurship is a cause. Further deductive studies are required in this area.

(i) **Study into largescale corporate firms and economic growth**

The GEM studies have so far studied the relationship between nascent and small entrepreneurs and economic growth. Attention had not been put on the large scale existing firms. This study has been able to explore the relationship between existing firms owned by portfolio entrepreneurs and economic growth. There is need for more inductive studies in the area of large scale corporate and economic growth.

(ii) **Studies into contribution of small firms to the churn**

The GEM model has also areas that have not been explored, for example, how do the small firms contribute to the churn, there is need for more inductive studies in these areas.

(iii) **Studies into the nature of the business churn**

This study discovers that the creative destructive concepts by Schumpeter is not simply an entry and exit of firms, the churn can be a churn of firms, a churn of entrepreneurs, and a churn within the portfolio of the portfolio business. Further research is required in this area to be able to explore the phenomena of the churn.

(iv) **Studies in failure of small business**

A lot of studies have been made which have concluded that many businesses especially small businesses fail within a period of three years (GEM Uganda Report 2003). The churn has demonstrated that businesses that are not competitive will be churned out of the industry. Business exit from an industry is good for consumers as inefficient firms exit that industry. The question is whether this failure is entrepreneurial failure, market failure or management failure. This also raises additional questions. Is this business closure by small firms good for the economy? Additional studies in this area will reveal whether the failure is good for the economy.

Concluding remarks

The study has been able to conclude that a relationship exists between entrepreneurship and economic growth. This study identified the portfolio entrepreneur as the most important type of entrepreneur who starts more businesses than other types of entrepreneurs. The portfolio entrepreneurs contribute to growth and development through start-up production of goods and services, contribution to taxes, creation of jobs among others. These are proxies for economic growth and development. However, the nature of this relationship cannot be confirmed. This creates a need for more deductive studies to be able to establish the nature of this relationship.

The study could not also establish whether entrepreneurship is a cause of growth but was able to establish that the entrepreneur was an instigator of growth. Additional studies are required to be able to explore and confirm this relationship further.

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APPENDIX 1:

UNIVERSITY OF STIRLING
STUDY INTO PORTFOLIO ENTREPRENUERSHIP
By Waswa Balunywa

LIST OF INDIVIDUALS AND COMPANIES INTERVIEWED AND SENT QUESTIONNAIRES

	Individuals
1	Muljibhani Madhvani family
2	Kalidas Mehta family
3	Manzur Alam
4	Gordon Wavamunno
5	Amos Nzeyi
6	B. M. Kibirige
7	Monitor Group of Individuals
8	Okeny Peter
9	Kaddu Kiberu
10	Bagalaaliwo Mohammed Magid
11	Karmali Armaril
12	Mike Mukula
13	Mariam Luyombo
14	Thomas Katto
15	Aga Ssekalala
16	Mukesh Shukla
17	Wafula Ogutu
18	Claire Wavamunno
19	Christopher Columbus Sembuya
20	Ahmed Nsubuga
21	Kassim Kiwanuka
22	Mohan Kiwanuka
23	Mukwano family
24	Karim Hirji
25	Sudhir Ruperalia
26	Kiwanuka Joseph William
27	Mulwana James
28	Sembule Sembatya.
29	Patrick Quarcoo
30	William Pike
31	Peter Sematimba

	Companies
1	Shell (U) Ltd
2	MTN (U) Ltd
3	Uganda Breweries Ltd
4	Total (U) Ltd
5	BAT (U) Ltd
6	Caltex Oil (U)
7	Nile Breweries Ltd
8	GAPCO Uganda Ltd
9	Kobil
10	Petro (U) Ltd
11	Century Bottling (Coca Cola)
12	Uganda Electricity Distribution
13	Hima Cement Factory Ltd.
14	Uganda Telecom Ltd
15	Kakira Sugar Works Ltd
16	Tororo Cement Industries Ltd
17	Standard Chartered
18	Roofings (U)
19	AK Oils and Fats (U) Ltd
20	Kinyara Sugar
21	Uganda Revenue Authority
22	Jovenna
23	Hared Petroleum Ltd
24	Crown beverages Ltd
25	Barclays Bank
26	Mukwano Industries
27	Uganda Electricity Generation Co
28	Stanbic Bank
29	Unilever
30	National Water and Sewerage Co
31	MUC Subvention
32	The New Vision
33	SCOUL
34	Uganda Baati
35	Bank of Uganda
36	Uganda Commercial Bank
37	DFCU Leasing
38	Interim Liquidation
39	Uganda Electricity Transmission
40	Bank of Baroda
41	Monitor Newspaper
42	Uganda Television
43	Multichoice (U)
44	Uganda Posts and Telecommunication Corporation

APPENDIX 2:

UNIVERSITY OF STIRLING
STUDY INTO PORTFOLIO ENTREPRENUERSHIP
By Waswa Balunywa

Questionnaire for Portfolio Entrepreneurs
Entrepreneurship has not been regarded as an important factor in economic growth and development, yet today many countries have started mentioning it as an important factor. This study is intended to identify the role of entrepreneurs in the growth and development process. Please assist in the completion of the study by filling and returning this questionnaire. The information is for academic purposes.

PART I: Information about respondent

1.1 Name: ____
1.2 Date of birth: ____
1.3 Sex: Male/Female ___________
1.4 Place of Birth: Village/Town _____________District ____________________
1.5 Marital Status: Single/Married/Widowed ______________________________
1.6 No. of Children (yours) Boys _________ Girls _________________
1.7 No. of Children in (your fathers/mothers) _____________________________
1.8 Your position in the family 1st, 2nd, 3rd, other state _______________________
1.9 Educational studied, highest level reached _____________________________
1.10 Schools/Universities attended _______________________________________
1.11 What are your goals in life? (Tick 2)
- -To be wealth
- -To excel in Business
- -To be independent
- -To live well
- -To excel in my professional
- -To serve society
- -Other, specify _________________________________

1.12 Do you think you have achieved it? Yes/No
1.13 Are you the founder of the business? Yes/No
1.14 Your childhood
1. Did you grow up with both your parents? Yes/No
2 If yes, which of the parents did you prefer?
3 If No, who did you grow up with? State
4 Who had much influence on you as a child
5 Were any of your parents involved in business? Yes/No
6 If yes, which one?
7 Did you fear any of the parents? a) Yes/No
   b) If Yes, Which One
   c) Why?
8 What was the nature of business

Farming/trade/manufacture
9 Did you ever work in the business? Yes/No
10 Were any of your parents employed anywhere? Yes/No
11. If employed where and as what?
12 What did you learn from your parents (Tick)\
-Discipline
-Prayer
-Work- hard
-Frugality
-Doing business
-Nothing
13 Were you stubborn as a child? Yes/No
14. Were you cautious as a child Yes/No
15. Were you daring or adventurous as a child Yes/No

PART 2: Information about organization

The assumption is that you have more than one business. Please respond in respect of your current key/main business

2.1 Name of Organization ___________________________
Legal Structure (Tick one)
- Sole Trader
- Partnership
- Private Limited Company
- Public Limited Company

2.2 Year of Establishment ________________________________
2.3 Did you have a detailed plan for the Organization? Yes/No
2.4 Where did you get capital to start? Personal Savings/Family Savings/ Friends/Loans
2.5 Why did you establish it? (Tick p to 3)
- Make money
- - Be independent
-Occupy myself
-Gain respect from friends/Family
-I was made redundant
-No promotion prospective at work
-Saw an opportunity/gap in the market
-I was unemployed
-Others specify ______________________________________

2.6 How many people do you employ? ________________
2.7 Did you get help from anybody to start (Family/ Friend/ Bank/ etc)
2.8 Do you have partners? Yes/No
2.9 Has it been or was it successful? Unsuccessful/Moderate/Successful/Very successful
2.10 Production and/or sales volume over the last 42 years

No. of unit	1998	1999	2000	2001
Production				
Sales				

2.11 Does the business have assets? Yes/No
____

2.12 Current Value of Assets in Shs. ________________________________

2.13 Does it have a Broad of Directors? Yes/No ___________

2.14 What is your current role of the business? Chairman/ Other shareholders
____

2.15 What is your current role in management?
Managing Director / other state ___________________

2.16 What lessons have you learnt from the business?
____
____

2.17 If this is not the first business you started, please indicate the first one
Name: ____
Date: ____

2.18 Why did you start it? (the previous business)
-Make money
-Be independent
-occupy myself
-gain respect from friends/family
-I was made redundant
-No promotion prospective at work
-Family tradition of being in business
-Saw an opportunity/gap in the market
-Other, specify

2.19 If the business is still not operating why?
a) It was making losses and I closed it.
b) I sold it
c) Other, state

PART 3: **Changes introduced in the current business**

a) For the following things about your business tick if you done it and indicate whether you will do it if necessary:

		Would you have done it Yes/No
1	Changed business objective	
2	Introduced new business objective	
3	Introduced new products/services	
4	Introduced new technology	
5	Introduced new machines	
6	Changed organizational structure	
7	Recruited additional staff	
8	Reduced staff size	
9	Restructured the business	
10	Merged departments	
11	Closed branches	
12	Opened new branches	
13	Split departments	

14	Changed working hours	
15	Introduced new methods of procurement	
16	Introduced new methods of soft ware	
17	Changed new software	
18	Introduced computer in work	
19	Opened new markets	
20	Brought new managers	
21	Learnt new management style	
22	Introduced Quality management	
23	Introduced cost cutting measures	
24	Improved communication	
25	Bought new communication equipments	
26	Constructed new buildings	
27	Bought new office equipment	
28	Changed office layout	
29	List any other changes introduced	

b) What would you do again in the future? List at least 5

i)
ii)
iii)
iv)
v)

PART 4: **What other businesses have you started?**

4.1 List name of companies

Name Industry Product Year

e.g 1. Tumpeco Light Engineering Furniture 1986

2
3
4
5
6
7
8
9
10

4.2 Which of those businesses are NOT in existence

i)
ii)
iii)
iv)
v)

4.3 For those, which you no longer own, what happened to them?

Name of Company Closed /Sold (Tick)

1
2
3
4
5
6

4.4 Company information

PART 5: INFORMATION ABOUT EACH SUBSEQUENT BUSINESS

1. Name of Organization ________________________
2. Legal Structure (Tick one)
   - Sole Trader
   - Partnership
   - Private Limited Company
   - Public Limited Company
3. Year of Establishment _____________________________
4. Did you have a detailed plan for the Organization? Yes/No
5. Where did you get capital to start? Personal Savings/Family Savings/ Friends/Loans
6. Why did you establish it? (Tick p to 3)
   - Make money
   - - Be independent
   -Occupy myself
   -Gain respect from friends/Family
   -I was made redundant
   -No promotion prospective at work
   -Saw an opportunity/gap in the market
   -Others specify __________________________________
7. How many people do you employ? ______________
8. Did you get help from anybody to start (Family/ Friend/ Bank/ etc)
9. Do you have partners? Yes/No
10. Has it been or was it successful? Unsuccessful/Moderate/Successful/Very successful
11. Production and/or sales volume over the last 42 years

No. of Units	1998	1999	2000	2001
Production				
Sales				

12. Does the business have assets? Yes/No
    ____
13. Current Value of Assets in Shs. _____________________________
14. Does it have a Broad of Directors? Yes/No __________
15. What is your current role of the business? Chairman/ Other shareholders
    ____
16. What is your current role in management?
    Managing Director / other state ________________
17. What lessons have you learnt from the business?

18. If this is not the first business you started, please indicate the first one

Name: ____

Date: ____

19. Why did you start it? (the previous business)

-Make money
-Be independent
-occupy myself
-gain respect from friends/family
-I was made redundant
-No promotion prospective at work
-Family tradition of being in business
-Saw an opportunity/gap in the market
-Other, specify

20. If the business is still not operating why?

a) It was making losses and I closed it.
b) I sold it
c) Other, state

5.2 Changes introduced in the current business

a) For the following things about your business tick if you done it and indicate whether you will do it if necessary:

		Would you have done it Yes/No
1	Changed business objective	
2	Introduced new business objective	
3	Introduced new products/services	
4	Introduced new technology	
5	Introduced new machines	
6	Changed organizational structure	
7	Recruited additional staff	
8	Reduced staff size	
9	Restructured the business	
10	Merged departments	
11	Closed branches	
12	Opened new branches	
13	Split departments	
14	Changed working hours	
15	Introduced new methods of procurement	
16	Introduced new methods of soft ware	
17	Changed new software	
18	Introduced computer in work	
19	Opened new markets	
20	Brought new managers	
21	Learnt new management style	
22	Introduced Quality management	
23	Introduced cost cutting measures	
24	Improved communication	
25	Bought new communication equipments	

26	Constructed new buildings	
27	Bought new office equipment	
28	Changed office layout	
29	List any other changes introduced	

b) What would you do again in the future? List at least 5

i)
ii)
iii)
iv)
v)

APPENDIX 3

UNIVERSITY OF STIRLING
STUDY INTO PORTFOLIO ENTREPRENUERSHIP
By Waswa Balunywa

INTERVIEW GUIDE

1.0 **About the respondent**
- 1.1 Name of respondent
- 1.2 Citizenship
- 1.3 Age
- 1.4 Number in family
- 1.5 Marital status
- 1.6 Education level
- 1.7 Number of children
- 1.8 Religious affiliation
- 1.9 Profession by training
- 1.10 Family background
  - 1.10.1 Family in business
  - 1.10.2 If yes, who
  - 1.10.3 Did you participate
  - 1.10.4 Family income level
  - 1.10.5 Influence of parents
  - 1.10.6 Previous employment before current

2.0 **First business established**
- 2.1 When
- 2.2 Where
- 2.3 What
  - 2.3.1 Products
  - 2.3.2 Location
  - 2.3.3 Growth
  - 2.3.4 Source of finance
- 2.4 Challenges of first business
- 2.5 Why/motivation for start-up
- 2.6 What has been achieved

3.0 **Management for each business**
- 3.1 Who manages the business
- 3.2 How are they recruited
- 3.3 Are they professional
- 3.4 Role of family
- 3.5 Role of spouse
- 3.6 Role of children

3.7 Role of others
3.8 Role of management in strategy

4.0 **Ownership of business**
4.1 First business
4.2 Type of business
4.3 Shareholding who/role of family
4.4 Directorship who/role of family
4.5 Subsequent business

5.0 Why start-up/motivation for each business
Profit
Leadership
Wealth
Excel
Be independent
Serve society
Support other business
Others (find out)
When do you decide

6.0 **Competition**
How do you come across the information about the business
Who do you interact with
Do you start-up even when there are others?
Why?
How?
How do you overcome challenges in management
What is the basis of competition

7.0 **Subsequent businesses**
7.1 When
7.2 Where
7.3 What
7.3.1 Products
7.3.2 Location
7.3.3 Growth
7.3.4 Source of finance
7.4 Challenges of first business
7.5 Why/motivation for start-up
7.6 What has been achieved

8.0 **Entrepreneurial/Management skills**
8.1 Formal education
8.2 Informal education
8.3 Seminars
8.4 Conferences
8.5 Short-term training
8.6 Decision making

8.6.1 Involvement of others
8.6.2 Involvement of family
8.6.3 Involvement of management
8.6.4 Involvement of experts/consultants
8.6.5 Investigations? Consultancies?
8.6.6 How do you finally take decisions
8.6.7 Why do that

9.0 **Exit**

When do you exit an industry
Why do you do so?
How you sold a business
Have you closed a business

10.0 **Position in market**

What position do you want to have
What position are you
Why do you want that position

DETAILS ON EACH BUSINESS

1.0 Management for each business

1.1 Who manages the business
1.2 How are they recruited
1.3 Are they professional
1.4 Role of family
1.5 Role of spouse
1.6 Role of children
1.7 Role of others
1.8 Role of management in strategy

2.0 Ownership of business

2.1 First business
2.2 Type of business
2.3 Shareholding who/role of family
2.4 Directorship who/role of family
2.5 Subsequent business

3.0 Why start-up/motivation for each business

Profit
Leadership
Wealth
Excel
Be independent
Serve society
Support other business
Others (find out)
When do you decide

4.0 Competition

How do you come across the information about the business
Who do you interact with
Do you start-up even when there are others?
Why?
How?
How do you overcome challenges in management
What is the basis of competition

APPENDIX 4

UNIVERSITY OF STIRLING
STUDY INTO SERIAL/ NOVICE ENTREPRENUERS IN UGANDA

By Waswa Balunywa

Questionnaire for small and medium sized business owners

Entrepreneurship has not been regarded as an important factor in economic growth and development, yet today many countries have started mentioning it as an important factor. This study is intended to identify the role of entrepreneurs in the growth and development process. Please assist in the completion of the study by filling and returning this questionnaire. The information is for academic purposes.

Do not fill this form if you have more than one business in operation.

PART

1.0 Information about respondent

- 1.1 Name: ____
- 1.2 Date of birth: ____
- 1.3 Sex: Male/Female ____________
- 1.4 Place of Birth: Village/Town ______________District _____________________
- 1.5 Marital Status: Single/Married/Widowed ________________________________
- 1.6 No. of Children (yours) Boys __________ Girls __________________
- 1.7 No. of Children in (your fathers/mothers) ________________________________
- 1.8 Your position in the family 1st, 2nd, 3rd, other state ________________________
- 1.9 Educational studied, highest level reached _______________________________
- 1.10 Schools/Universities attended ____
- 1.11 What are your goals in life? (Tick 2)
  - -To be wealth
  - -To excel in Business
  - -To be independent
  - -To live well
  - -To excel in my professional
  - -To serve society
  - -Other, specify ___________________________________
- 1.12 Do you think you have achieved it? Yes/No
- 1.13 Are you the founder of the business? Yes/No
- 1.15 Your childhood
  1. Did you grow up with both your parents? Yes/No
  2. If yes, which of the parents did you prefer?
  3. If No, who did you grow up with? State
  4. Who had much influence on you as a child
  5. Were any of your parents involved in business? Yes/No
  6. If yes, which one?
  7. Did you fear any of the parents?
     - a) Yes/No
     - b) If Yes, Which One
     - c) Why?

8 What was the nature of business
Farming/trade/manufacture
9 Did you ever work in the business? Yes/No
10 Were any of your parents employed anywhere? Yes/No
11. If employed where and as what?
12 What did you learn from your parents (Tick)\
-Discipline
-Prayer
-Work- hard
-Frugality
-Doing business
-Nothing
13 Were you stubborn as a child? Yes/No
14. Were you cautious as a child Yes/No
15. Were you daring or adventurous as a child Yes/No

PART 2

2.0 INFORMATION ABOUT ORGANIZATION

2.1 Name of Organization __________________________
Legal Structure (Tick one)
- Sole Trader
- Partnership
- Private Limited Company
- Public Limited Company

2.2 Year of Establishment _______________________________
2.3 Did you have a detailed plan for the Organization? Yes/No
2.4 Where did you get capital to start? Personal Savings/Family Savings/ Friends/Loans
2.5 Why did you establish it? (Tick p to 3)
- Make money
- - Be independent
-Occupy myself
-Gain respect from friends/Family
-I was made redundant
-No promotion prospective at work
-Saw an opportunity/gap in the market
-I was unemployed
-Others specify ____________________________________

2.6 How many people do you employ? ________________
2.7 Did you get help from anybody to start (Family/ Friend/ Bank/ etc)
2.8 Do you have partners? Yes/No
2.9 Has it been or was it successful? Unsuccessful/Moderate/Successful/Very successful
2.10 Production and/or sales volume over the last 42 years

No. of Units	1998	1999	2000	2001
Production				
Sales				

2.11 Does the business have assets? Yes/No

2.12 Current Value of Assets in Shs. ______________________________

2.13 Does it have a Broad of Directors? Yes/No __________

2.14 What is your current role of the business? Chairman/ Other shareholders

____

2.15 What is your current role in management?

Managing Director / other state _________________

2.16 What lessons have you learnt from the business?

____

____

2.17 If this is not the first business you started, please indicate the first one

Name: ____

Date: ____

2.18 Why did you start it? (the previous business)

-Make money
-Be independent
-occupy myself
-gain respect from friends/family
-I was made redundant
-No promotion prospective at work
-Family tradition of being in business
-Saw an opportunity/gap in the market
-Other, specify

2.19 If the business is still not operating why?

a) It was making losses and I closed it.
b) I sold it
c) Other, state

PART 3:

3.0 **Changes introduced in the current business**

a) For the following things about your business tick if you done it and indicate whether you will do it if necessary:

		Would you have done it Yes/No
1	Changed business objective	
2	Introduced new business objective	
3	Introduced new products/services	
4	Introduced new technology	
5	Introduced new machines	
6	Changed organizational structure	
7	Recruited additional staff	
8	Reduced staff size	
9	Restructured the business	
10	Merged departments	
11	Closed branches	
12	Opened new branches	
13	Split departments	

14	Changed working hours	
15	Introduced new methods of procurement	
16	Introduced new methods of soft ware	
17	Changed new software	
18	Introduced computer in work	
19	Opened new markets	
20	Brought new managers	
21	Learnt new management style	
22	Introduced Quality management	
23	Introduced cost cutting measures	
24	Improved communication	
25	Bought new communication equipments	
26	Constructed new buildings	
27	Bought new office equipment	
28	Changed office layout	
29	List any other changes introduced	

b) What would you do again in the future? List at least 5

i)
ii)
iii)
iv)
v)

PART 4

4.0 What other businesses have you started and are no longer in operation? List name of companies

		Name	Industry	Product	Year
e.g	1.	Tumpeco	Light Engineering	Furniture	1986
	2				
	3				
	4				
	5				
	6				
	7				
	8				
	9				
	10				

5.0 Please attach for me copies of audited annual accounts

APPENDIX 5:
UNIVERSITY OF STIRLING

STUDY INTO PORTFOLIO ENTREPRENUERSHIP
By Waswa Balunywa

Questionnaire for Corporate Companies

I am undertaking a study into corporate entrepreneurship in Uganda with a view to understanding what makes people and indeed organizations entrepreneurs. This is part of my PhD and the findings will also help us improve teaching entrepreneurship at the university. The questionnaire has 4 Parts.

PART 1: strategic position of the orgnanization in the industry it operates.

Please consider the following contrasting statements and circle the score number you believe represents the current situation in your organization.

There is no right or wrong answers, what is important are your opinion.

The questionnaire should not take too long to answer.

Example

Statement - In general the top managers in my company favor: -

A strong emphasis on the Marketing of standard products and services.

A strong emphasis the marketing on new or different products and service

1 2 3 4 5 6 7

If you believe they equally favor both then you would circle 4. If you think they very strongly favor new or different products you would circle 7. If they favor standard products / services, Circle one. You can also circle numbers in between depending on how strongly you feel about something.

Statement 1 - In general top Managers in my company favor: -

A strong emphasis on the marketing of standard products and services.

A strong emphasis on new or different

1 2 3 4 5 6 7

Statement 2 - In dealing with competitors my company: -

Typically copies activities initiated by competitors

Typically initiates activities which competitors copy.

1 2 3 4 5 6 7

Typically avoids competitive
aggressive
competitive Clashes

Typically adopts
postures

1 2 3 4 5 6
7

Statement 3 - How many changes have been introduced by my company in the last five years?

None. Changes have been
mostly of a minor nature.

Many. Changes in
products processes and services
have usually been numerous.

1 2 3 4 5 6
7

The company is rarely leader
'in introducing new admini-
strative techniques and
operating technologies.

It is often the first company to
introduce new administrative
and operating technologies.

1 2 3 4 5 6
7

In general top management
have a strong preference for
low risk projects.

In general top management have a
have a strong preference for high
Risk projects.

1 2 3 4 5 6
7

The organizational structure
rarely changes

The organizational structure
frequently changes

1 2 3 4 5 6
7

Statement 4 - In general top management believe that:

Owing to the nature of the
environment it is best to explore
it gradually via cautious incremental behavior.

Owing to the natureof the
environment bold wide ranging
activities are necessary to achieve
the company's objectives.

1 2 3 4 5 6
7

Statement 5 - When confronted with uncertainty my company: -

Typically adopts a wait and
See posture in order to minimize
the probability of making a costly decision.
Opportunities.

Typically adopts a bold aggressive
posture in order to maximize the
probability of exploiting

1 2 3 4 5 6
7

PART 2: <u>Organizational Structures</u>

Statement 1- The system in my company:-

Highly structured with restricted access and on a need to know basis

Is on an open channel basis financial information flows freely in the company

1 2 3 4 5 6 7

Statement 2 - In my company there is: -

Strong insistence on uniform the managerial style.

Styles are formal and informal as Situation requires.

1 2 3 4 5 6 7

Strong emphasis is on giving in most say to senior management say.

Strong tendency is to let experts a given situation have the most

1 2 3 4 5 6 7

Statement 3 - My company believes in: -

Holding fast to traditions and management principles despite changes in business conditions.

A strong emphasis on adapting quickly and freely to changing circumstances

1 2 3 4 5 6 7

Insisting all personnel follow procedures

Getting things done

1 2 3 4 5 6 7

Sophisticated control of achieve financial and administrative procedures

Informal arrangements, which success in getting the work done.

1 2 3 4 5 6 7

Statement 4 - My company: -

Personnel stick to their own job descriptions and reporting procedures.

Requirements of situation and personalities define correct job Behavior.

1 2 3 4 5 6 7

PART 3: <u>CORPORATE ENTREPRENEURIAL ANTECEDENTS</u>

Please Note: -

1. Entrepreneurial Companies are thought to be sensible in their risk taking, continually innovative, and proactive in creating their own opportunities.

2. Please limit the responses about your company to those associated with the business areas with which you are familiar.

3. Your own personal opinions are what matter and are vital to this survey; there is no right nor wrong answers.

4. Replies are private and strictly confidential. Many thanks.

ELIGIBLE RESPONSES TO STATEMENT

SCALE	SCORE
I agree strongly	5
I agree slightly	4
I neither agree nor disagree	3
I disagree slightly	2
I disagree strongly	1
1 don't know	0

Group A

1. My company is a leader in the Industry.

5 4 3 2 1 0

2. My company likes to introduce new products / services and experiments with new ideas.

5 4 3 2 1 0

3. Companies that frequently introduce new products /service or ways of doing things are common in the industry we operate in.

5 4 3 2 1 0

4. People with new ideas and who want to experiment with the unknown are common and well known in my company

5 4 3 2 1 0

5. The Industry we operate in is very traditional and stable.

5 4 3 2 1 0

6. My company has regularly pioneered new administrative and commercial ideas. Which are then copied by the industry?

5 4 3 2 1 0

7. My company operates in a highly competitive environment.

5 4 3 2 1 0

8. The industry is both conservative and quietly corporative with those within the industry.

5 4 3 2 1 0

9. The industry we are in is a highly technical industry.

5 4 3 2 1 0

10. My company is not a high tech plant relative to most of the companies in the industry

5 4 3 2 1 0

Group B

11. My company is always up-to-date with technical developments.

5	4	3	2	1	0

12. Companies with many fewer resources (material and skilled personnel) need to be more entrepreneurial to compete with us.

5	4	3	2	1	0

13. I believe my company's traditions make us very profitable.

5	4	3	2	1	0

14. My company is always up to date technical development.

5	4	3	2	1	0

15. My company is at the forefront of the industry's technical development.

5	4	3	2	1	0

16. My company is much more profitable due to its knowledge and application of technical developments.

5	4	3	2	1	0

17. My company constantly emphasizes product quality.

5	4	3	2	1	0

18. Our emphasis is on product quality encourages new products /process or new ways of doing things.

5	4	3	2	1	0

19. New ideas, new products or processes have improved our products quality.

5	4	3	2	1	0

20. Experimenting with new ideas, new products or processes has improved our products quality.

5	4	3	2	1	0

21. New ideas, new products and processes have made our costs more competitive.

5	4	3	2	1	0

22. Lower product costs have improved our company's performance.

5	4	3	2	1	0

23. Top management believes new products and process increase profits.

5	4	3	2	1	0

Group C

24. Taking the initiative has helped my company introduce new products/services or process and made us grow fa~ than others in this industry.

5	4	3	2	1	0

25. My company has improved its plan efficiencies through seizing opportunities and introducing new products/services and or ways of doing things.

5	4	3	2	1	0

26. The importance and value assigned to product quality has encouraged my company to continually introduce new products /services and new ways of doing things.

5	4	3	2	1	0

27. The value our top management places on being a leader has encouraged our company introduces new products/services and new ways of doing things.

5	4	3	2	1	0

28. Our top management attributes our success to the new way of doing things and new products/services we introduce.
5 4 3 2 1 0

29. Research and development is more important to our company than it is with most of our competitors
5 4 3 2 1 0

30. My company encourages us to regularly search for profitable opportunities in which it could invest.
5 4 3 2 1 0

31. My company's performance has improved because we are efficient at finding profitable opportunities.
5 4 3 2 1 0

32. My company's performance has improved because we are encouraged to make effective use of modern, state of the art, technology.
5 4 3 2 1 0

33. My company encourages and values the open expression and discussion of novel, radical and new or different ideas.
5 4 3 2 1 0

34. My company's culture values the empowerment of its staff.
5 4 3 2 1 0

Group D

35. When new ideas/products/services are essential for long term survival, my company actively encourages individual to come up with new proposals.
5 4 3 2 1 0

36. My Organization values and supports teamwork in carrying out the day-to-day operations of the company
5 4 3 2 1 0

37. My company insists on adhering to formal rules and agreed procedures to generate new ideas/products/services
5 4 3 2 1 0

38. Long-standing formal procedures and systems are appropriate in industries where maintaining tradition is vital to financial profit.
5 4 3 2 1 0

39. My company believes its long-term profits will be improved by reducing the negative effects of bureaucracy within the company. 5 4 3 2 1
0

40. Centralization of authority has not encouraged new ideas in our company.
5 4 3 2 1 0

41. Centralization of authority has improved our company's efficiency, and competitive performance.
5 4 3 2 1 0

42. My company's layers of management structure have encouraged new ideas and creation of many more opportunities.
5 4 3 2 1 0

43. The various layers in my company's management structure are necessary to maintain and improve business efficiency.
5 4 3 2 1 0

44. My company's profits have encouraged our new ideas, products and processes

5	4	3	2	1	0

45. Too much entrepreneurial activity can risk safety, harm profits, and reduce the effectiveness of our company

5	4	3	2	1	0

46. Our Entrepreneurial responsibilities have encouraged staff to realize most of their personal and career ambitions in our company

5	4	3	2	1	0

PART 4: Particular of respondent and organization

1. Name of respondent (Optional):____
2. Name of organization:____
3. Date of establishment of organization:____
4. Main Products/services sold/provided:____
5. Nature of Industry:____
6. Designation of respondents in organization:_________________________________
7. Level or Position: Top/Middle/Lower Level:_________________________________
8. No. of Employees:____
9. No. Employed in each level (Percentage)

   Top: ________________________________

   Middle: ________________________________

   Lower: _______________________________

10. No. of years of respondent in the organization:____________________________

11. Sex of respondent (Tick): (M) (F)

APPENDIX 6:

UNIVERSITY OF STIRLING
STUDY INTO PORTFOLIO ENTREPRENUERSHIP
By Waswa Balunywa

LIST OF COMPANIES OWNED BY INDIVIDUALS

GORDON WAVAMUNNO: SPEAR GROUP OF COMPANIES

i. Car Distributors, sales and services: Spear Motors Ltd.
ii. Car sales and services: Wavah Holdings Ltd
iii. Car sales and services: Good day Motors Ltd.
iv. Steel fabrication and Products: GM Tumpeco Company Ltd.
v. Car maintenance: Wanno Engineering Ltd.
vi. Beddings: Slumber land (U) Ltd.
vii. Banking services: Nile Bank Ltd
viii. Publishing: Wavah Books Ltd.- Publisher of books
ix. Property: Spear House Ltd.
x. Insurance services: United Assurance Company Limited
xi. Radio Broadcasting: Radio Simba
xii. Hotel services: Lake View Hotel
xiii. Clearing and Forwarding: Go Africa Ltd.
xiv. Horticulture: Victoria Flowers Limited
xv. Apparel: Phoenix
xvi. Television Broadcasting: WBS Television
xvii. Internet Services : Sanyutel Internet Café
xviii. Agricultural Farming: Wava Farm Dairy Products
xix. Training School: Division of Spear Motors
xx. Tourism services: Spear Touring Co. Ltd.

MULJBHAI MADHVANI: MADHVANI GROUP OF COMPANIES

i. Major product: Sugar by Kakira Sugar Works (1985) Ltd
ii. Confectionaries: Division of Kakira Sugar Works (1985) Ltd
iii. Tea Estates: Division of Kakira Sugar Works (1985) Ltd

iv. Soap: Division of Kakira Sugar Works (1985) Ltd
v. Edible oil and maize flour milling: Division of Kakira Sugar Works (1985) Ltd
vi. Cut Flowers: Kajjansi Roses Ltd
vii. Packing materials: Mulbox Ltd
viii. Insurance products: East African Underwriters Ltd
ix. Security services: Industrial Security Services Ltd.
x. Aircraft maintenance: Turbo Prop Service Centre Ltd. (TPSC)
xi. Construction services: Excel Construction Services Ltd
xii. Real estate: Muljibhai Madhvani Co. Ltd.
xii. Product distributors: East African Distributors
xiv. Hotels: Marasa Holdings
xv. Other businesses