INCLUDE

October 2018
Productive Employment

Final findings
Multipliers for Employment Creation: The IT-Industry in Kenya

Policy conclusions

How can productive (formal) employment be facilitated? At a time in which in emerging countries such as Kenya large parts of the population rely on less than a few dollars per day – partly resulting from unproductive employment in the informal sector – it is paramount to understand how we can create productive employment, boost the national economy, and reduce poverty, through innovative growth sectors such as IT, or indeed, by turning 'survival entrepreneurs' into growth entrepreneurs. As well as how to facilitate this transformation process through incubators (now 100+ in Africa and quickly growing) and entrepreneurship training programs and coaching, supported by local governments, international NGOs and development organizations, and other funders such as angel investors, impact investors, and so on.

Thus, our team of researchers from the London School of Economics (LSE) and Rotterdam School of Management (RSM), together with key local consortium partners (e.g., Strathmore Business School, Ashoka, iHub, Nairobits, and so on), explored this important issue. Using an explorative and immersive approach, of in-depth qualitative and quantitative studies, to understand the underlying dynamics. We conducted 100+ interviews with entrepreneurs, incubators, policymakers, and other stakeholders; used observations and archival data to substantiate emerging insights; and conducted surveys among several hundreds of entrepreneurs and rigorous econometric testing to establish the validity of these insights. Our insights led to an extensive range of practical implications.

First, our extensive research of young IT entrepreneurs at the iHub – a leading incubator in Kenya/Africa - and similar incubators for instance, in Mombasa, showed that these entrepreneurs learned from major threats (to their enterprises) and failures, but only under very specific circumstances. They learned and implemented major (successful) restructuring of their enterprises only if they attributed the causes of failures to themselves rather than blamed external circumstances (a common emotional/psychological reaction). AND – intriguingly – if social support from family and close friends was low or absent; apparently, it requires a certain minimum level of self-reliance to learn from one's failures. In contrast, financial support from family and friends helped successful change/growth.
These research outcomes suggest important lessons for the 100+ incubators in Africa, as well as organizations running entrepreneurship training programs, and universities, NGOs, governments, angel investors, venture capitalists working with them, on how to deal with (near- and complete) failures as part of the training and mentoring. Failure is extremely common, in fact, part of most entrepreneur's trajectories. How not only to deal with it, but also how to learn from it – both during an entrepreneurial trajectory in the face of major threats, and after a venture failed completely – and turn this into successful ventures, will facilitate higher success rates of individual ventures, and at the macro-level: the creation of more productive employment to strengthen local and national economies, including in upcoming domains as IT. As a trial and to create some initial impact from our research, we ran an in-depth, interactive workshop with IT entrepreneurs at the iHub, which clearly resonated with entrepreneurs; in fact, quite deeply with some of them, as entrepreneurial failure is often perceived as a personal failure. They appeared to learn important lessons on how to handle threats and failures successfully, indicating that all these benefits are within reach.

Second, 'entrepreneurship' has globally been advocated over the past decade as an important source of poverty reduction for 'the poorest', including by many Western Development agencies and NGOs. However, the 'common wisdom' (e.g., in Microfinance, entrepreneurial research) is that survival entrepreneurs 'never grow,' imposing important limits on this Development tool. We therefore conducted a qualitative study of 'survival entrepreneurs' in Nairobi slums. We found, contrary to common wisdom, that quite a few of them actually did grow: if the right conditions were present. We identified some important conditions. Those who moved – after failure – beyond family

ties and affiliated with other, successful entrepreneurs, increased their aspiration levels and learning (by comparing themselves with these successful entrepreneurs), and propelled themselves on a trajectory of productive growth – often becoming mentors for early entrepreneurs, and multipliers of productive growth, themselves. As with iHub entrepreneurs, IT often played an important role, for instance, when marketing and selling products on line. Hence – contrary to received wisdom – 'survival' entrepreneurs may actually move beyond 'survival status' and create productive employment in slums, and reduce poverty, under conditions as identified in our research.
This suggests important lessons for how incubators, governments, and development agencies working with IT training centres and incubators and entrepreneurs in slums, can facilitate and support 'survival' entrepreneurs, and reduce poverty. Not only for these entrepreneurs to become successful themselves but also to create employment for others, and – importantly – become mentors for other young entrepreneurs, facilitating their growth trajectory to productive employment as well. These lessons include: for incubators/other organizations (e.g., NGOs) working with survival entrepreneurs: to create trainings and mentoring programs for survival entrepreneurs, which share these insights (i.e., on how to handle failure, who to engage in your network, e.g., successful entrepreneurs, and how, at different stages of the entrepreneurial trajectory). These lessons are also important for funders, governments, and development organisations working with those facilitating the training/mentoring (incubators, NGOs, community-based organisations which often create crucial social fabric especially for young entrepreneurs; key transformational leaders such as 'champions' within the incubators). We are currently considering a more in-depth and extensive, mixed-method research phase, which would lead to more extensive and in-depth insights and policy implications. As a trial and to create some initial impact, we ran an in-depth, interactive workshop with the entrepreneurs of Nairobits, which clearly resonated; in fact, quite deeply with some of them who had experienced failure of their enterprise. They appeared to learn important lessons on how to handle threats and failures successfully, indicating that all these benefits are within reach.

Third, our comparison study in Bangladesh found that (young) female entrepreneurs – as part of a micro-franchise formula, portrayed as 'entrepreneurs' by the social enterprise that engaged them, were subjected to - and constantly negotiated - tensions due to facing different roles: of being a family member, a development worker, and lowly 'hawker', depending on conditions. This contrasts with the simple rhetoric of empowered 'super-women' enjoyed by (some) policy makers and (Western) funders. This suggests an important lesson for development agencies, NGOs aiming to facilitate the creation of 'women entrepreneurs', and social entrepreneurs, investors (angel investors, 'impact' investors) funding initiatives claiming to empower 'women entrepreneurs': that nuanced, in-depth, evidence-based insights such as in our study provide a better and more valid basis for policy implementation, evaluation, impact assessment, and program learning – and for creating positive social impact rather than social damage, especially for the most vulnerable women and girls – than superficial 'validations' of (premises of) ideologies, conveniently labelled and touted as 'social impact', emerging from 'consultants', for instance, 'monitoring and evaluation studies' lacking real depth, serving to support rather than clarify underlying ideological biases.

Fourth, our research showed that the decentralization of government – devolution (here: in Kenya) – can lead to more inclusive development by increasing accountability, stimulating local development, and enhancing access to government, for example IT firms gaining counties as customers. However, lack of professional implementation, lower-level systemic corruption, and ethnicity-based nepotism can be major challenges to IT companies that aim to grow and create productive employment. We suggest government getting involved in continuously and smoothly promoting inter-ethnic ties, for example by linking funding to "tribe quotas," similar to gender quotas in some countries. This could lead to a more equal representation, particularly at the level of local districts, and potentially increase the access for local IT companies – leading to a more flourishing and more equally distributed entrepreneurial landscape.
More generally, in ethnically fragmented societies, it is paramount to develop training programs for emerging (IT) entrepreneurs that integrate social skills related to bridging previously disconnected groups (e.g., tribes). Successful IT companies in our study performed well partly due to their intuitive use of cross-tribal ties. They formed consortia with actors from across tribes, partly in order to get access to counties in which another tribe was in power. This cross-ethnic collaboration can be facilitated by support organizations. We suggest that entrepreneurs in these settings can be "socialized" into cross-tribal interactions, for example by coupling them with entrepreneurs from different tribes, facilitating cross-tribal interactions during events, and having training programs given by an ethnically diverse group of facilitators. Event organizers should be conscious of having speakers from different tribes

(i.e., introducing a constant "tribal balance") – both to signal the cross-tribal nature of the event as well as to pull in people from different tribes. This also goes for mentors: making sure there is a proper "tribal balance" enables a more inclusive network for participating entrepreneurs. Tactics that emerged from our study – such as learning to "reframe" from tribal networks to networks of shared interest (e.g., by appealing to common denominators) – could be taught to entrepreneurs.

Fifth, our findings regarding entrepreneurs in incubators – particularly given that IT entrepreneurs often "pivot" and change course based on unexpected encounters or new ideas – point to the important point that local support organizations such as incubators, accelerators, and venture capitalists need to rethink the design of their support programs. Training programs that only focus on "hard" skills (e.g., accounting) miss out on a key aspect of venture growth and productive employment in those contexts: additionally, it's important to help entrepreneurs develop a (growth) mindset that helps them make the best out of the unexpected. Supporting people in embracing new ideas and setting up environments that allow for serendipity to happen comes to the fore. Embracing change can be facilitated for example by inviting people to openly share their serendipity stories during events. Thus, support organizations such as incubators are well served to not over-focus on managing risk, but instead to set up environments in which serendipity can be fostered and translated into helpful initiatives, for example, by developing related funding for emerging ideas.

In general, our combined studies contribute to understanding how African countries can promote formal employment and economic prosperity and growth through entrepreneurship, and how Dutch/international organizations can be of help (e.g., by working with local incubators on developing the local ecosystem, including training and mentoring, perhaps working with key transformational leaders such as 'champions' within the incubator, by enabling entrepreneurs to meet, etc.). As an overall strategy, this may be a more effective and efficient – and arguably amore empowering and dignified – policy to stimulate productive employment and economic prosperity and growth in Africa (or to use the highly negative rhetoric of some Western policy makers and leaders: to 'keep Africans in Africa')— than the measures announced by the EU recently (June 12, 2018), of building new border infrastructure including scanners, automatic number plate recognition systems, and teams with sniffer dogs to the tune of 34.9bn euro for 2021-2027.

Policy messages

Other, specific policy lessons from our combined studies:

- Policy-makers (e.g., aid agencies, governments) should not focus exclusively on funding initiatives to encourage and foster entrepreneurship in the tech sector (e.g. the Kenyan Youth Enterprise Development Fund), but also on relevant learning, training, mentoring, and other entrepreneurial development initiatives that foster greater entrepreneurial capabilities, competence, and preparedness, all of which are important for greater success, employment creation, and long-term prosperity.
- Policy-makers (e.g., aid agencies, governments) could re-think their engagement in the tech entrepreneurship ecosystem by facilitating greater connection between investors and high potential entrepreneurs. For example, investors are eager to fund Kenyan-based ventures but either find it difficult to identify and connect with emergent entrepreneurs or are reluctant to fund emergent entrepreneurs due to a lack of fundamental organizational and management skills on behalf of founders and venture teams.
- Policy-makers (governments) should not only focus on the development of key policies (e.g., Kenya 2030, devolution), but also on unintended consequences during policy implementation. For example, our IT-enterprise study shows that the move towards devolution did not only, as assumed, create more inclusive institutions; rather, it also created more extractive institutions (e.g., due to tribal affiliations that now became re-activated at the local level, although it also stimulated inter-ethnic cooperation). Our research shows how IT-entrepreneurs can creatively navigate these challenges and create productive employment, and how government can adjust its implementation approaches to enable more inclusive institutions that allow for the actual (vs intended) creation of formal employment.

- Policy-makers (e.g., national and local policy makers) could re-think their engagement in the IT-ecosystem. Our incubator-focused studies have shown that stakeholders such as the government played a role (e.g., visits by the president, subsidies, etc.) in supporting the IT-ecosystem and its multipliers (esp. incubators). However, in contrast to countries such as Rwanda, government efforts appeared often ad-hoc and not sustained (e.g., no sustained relationship after the visit of the president).
- For international support organizations, we suggest to identify local "informal leaders" and to help legitimize them. Often, in emerging country contexts it is a "stamp of honour" to be working with international partners. Empowering local champions that represent the core of what a program is about – for example, "inclusiveness" – becomes paramount. Supporting entrepreneurial initiatives then also contributes to important other policy goals beyond productive employment, for example related to decreasing inequality and reducing conflict.
- Policymakers (e.g., national and local governments) tend to develop policy based on a central "plan" or "strategy", trying to map everything out a priori, often without a clear understanding of the respective local context. We suggest integrating entrepreneurs and local multipliers (e.g., incubators) at early stages in the process. Rather than just pouring resources into a setting based on a central plan / ideology, we suggest developing programs (for example, together with incubators such as iHub) that allow entrepreneurs to go through their learning curve at their own pace – and support them with access to resources if and when needed. For example, targeted and recurring (e.g., monthly) "roundtables" across sectors could be an effective means to engage actors and to form effective local communities; actors such as entrepreneurs could be asked to share their current needs, and make "pledges" on how they aim to contribute to the broader picture (e.g., to the "vision 2030" in Kenya). This potentially develops local "buy in" and helps integrating relevant information, while developing effective local communities.
- To help foster entrepreneurial activity and increase job growth, policymakers (e.g., national and local governments) have an increased interest in network creation and supporting intermediaries such as incubators. However, while policymakers or funders might be compelled to engage via formal government channels and local government officials, they might be better served by identifying the existing local multipliers (e.g., incubators) that are able to convene and enable local networks and that could nurture emerging ideas as they come up. Given that in the context of entrepreneurial communities, formal authority is often substituted by informal authority, we suggest giving local multipliers a clear "mandate" – for example, by legitimizing them publicly.
- More generally, our findings suggest that policymakers (local and national governments) and support organizations tend to devise "support programs" top-down. However, particularly in dynamic environments such as IT entrepreneurship, the local enterprises themselves – and local multipliers for employment creation such as incubators – have the best understanding of what is needed at each point in time. Developing a support infrastructure that takes these dynamics into account – and puts the entrepreneur rather than resources/budgets center-stage – is crucial to facilitate formal employment driven by local enterprises. This necessitates a holistic approach that engages local actors early on in the process; that is responsive to changes over time; and that places responsibility on local actors.

Contact

Prof. Harry Barkema, research project leader, h.g.barkema@lse.ac.uk

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