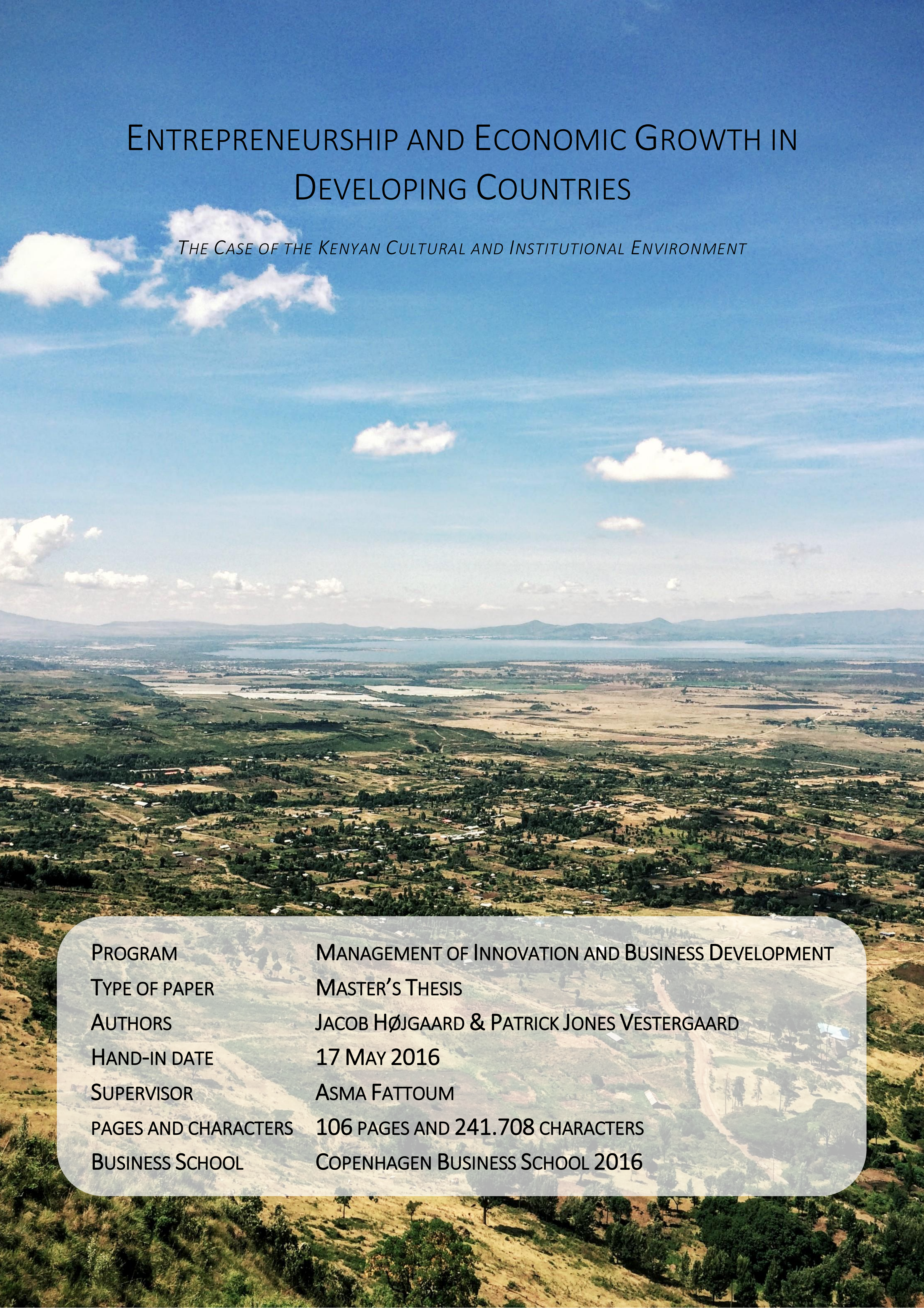

ENTREPRENEURSHIP AND ECONOMIC GROWTH IN DEVELOPING COUNTRIES

THE CASE OF THE KENYAN CULTURAL AND INSTITUTIONAL ENVIRONMENT

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ABSTRACT

Over the last 50 years, Africa has not been able to keep up with other developing countries and regions (Mills, 2010). The region of Sub-Saharan Africa has largely remained poor with income levels continuing to lag significantly behind the rest of the world (Tupy, 2014). In attempts to find a solution and the cause for economic growth, the field of entrepreneurship has increasingly been drawing the attention from economists, politicians and other practitioners. The world has seen a lot of government effort in trying to actively manage entrepreneurial output, however, a new string of research argues that entrepreneurs need something entirely different and cannot only be established from the top down. Rather, the entrepreneur needs a culture that is encouraging and conducive to the basic entrepreneurial activities and that the prevailing economic, political, and legal institutions are offering the required freedom and enforces sufficient protection (Baumol 2007). From this perspective, this thesis aims to contribute to the debate by asking *how the cultural and institutional environment influence entrepreneurs and how that is significant for Kenya's economic growth?* To answer this research question, this thesis is conducted following a pragmatic approach, and is based on qualitative data gathered through semi-structured interviews with stakeholders involved with the entrepreneurial scene in Kenya, all of which were conducted during a field study in Nairobi from February to March 2016.

Having applied a cultural framework of five belief systems, as inspired by Grudem & Asmus (2013), Baumol (2007), and Landes (1999), as well as institutional theory based again on the ideas of Baumol (2007) and the Index of Economic Freedom (2016), the findings suggest that the cultural and institutional environment is hostile to entrepreneurs. The Kenyan government does not adequately protect property rights in order to secure the discovery of profit opportunities, nor the freedoms for exploiting them. Specifically, a weak rule of law and high regulatory complexity makes starting and running a business a tiring and troubled affair. Moreover, cultural values and beliefs discourage entrepreneurs from pursuing a career of self-employment and taking business risk. In the end, the insights of this thesis have been used to develop a set of policy recommendations, and provides additional understanding of the relationship between entrepreneurship and economic growth, and its dependence on culture and institutions, which framed the problem field of this thesis.

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ACRONYMS

EPTF	The Economic Projects Transformational Facility
EPZ	Export Processing Zone
IEF	Index of Economic Freedom
ICT	Information and Communications Technology
IFU	Investment Fund for Developing Countries
GCI	Global Innovation Index
GDP	Gross Domestic Product
GEI	Global Entrepreneurship Index
GII	Global Innovation Index
KES	Kenyan Shilling
NGO	Non-Governmental Organization
PPP	Purchasing Power Parity
SMS	Short Message Service
USD	US Dollar
VAT	Value Added Tax

1 INTRODUCTION

Over the last 50 years, Africa has not been able to keep up with other developing countries and regions (Mills 2010). The region of Sub-Saharan Africa has largely remained poor and has a per capita income that is 50 percent lower than South Asia, the second poorest region in the world. The continent's income level continues to lag significantly behind the rest of the world (Tupy 2014). Despite having experienced an increased income per capita growth of 4,3 percent since 2010, the recent economic improvements have shown not to be sufficient to close the income gap between Kenya and the rest of the world. The growth rate that the region is experiencing still does not bear comparison to the Chinese and Indian growth miracles, not to mention the success of Southeast Asian countries.

Many solutions have historically been offered to bring developing countries to greater levels of prosperity. The most noticeable recipients of aid and debt canceling have been the African countries, which by some is perceived as the optimal path out of poverty. Yet, the historical record shows that none of the now rich nations have become rich by such donations (Acemoglu og Robinson 2012). Fundamentally, this proposed solution is similar to redistributing wealth from the rich to the poor, which in itself is not a value-producing activity (Grudem og Asmus 2013). None of these suggested and tried solutions have succeeded in bringing sustainable economic growth, as they cannot function as a proper economic goal for a developing country. They fall short of understanding what causes poverty and they fall short of the objective of creating value.

Eager to find a solution to poverty and the cause of economic growth, entrepreneurship has in the recent years taken the attention of economists, politicians, scholars, and practitioners, as one of the most important activities performed in the economy. It might even be the very key to economic growth (Boettke og Coyne 2006). Everyone desires the next Silicon Valley in their country and there is thus a strong temptation among many governments to micro-manage entrepreneurial activity by, for example, favoring one type of firm over another by providing tax benefits, lowering regulatory codes, or through targeted subsidies. However, there is an argument that says that entrepreneurship cannot be established from the top down, but will emerge endogenously (Klein 2014). In accepting that argument, we soon come to realize that the entrepreneur does need increased involvement from the government, but needs something different entirely. The entrepreneur needs a culture that is encouraging and conducive to the basic entrepreneurial activities and he additionally needs the prevailing economic, political, and legal institutions to be offering the required freedom and that they enforce sufficient protection (Baumol 2007).

This thesis aims to contribute to the debate regarding economic growth in developing countries, by exploring Kenya's entrepreneurial environment at firm level. Drawing on qualitative data from a study of Kenya's cultural values and its institutions, this thesis provides a contextualized study of the link between entrepreneurship and economic growth. Therefore, we believe it to be relevant for both local policy makers and international development practitioners.

1.1 PROBLEM FIELD AND RESEARCH QUESTION

This thesis can be found within the wider fields of development studies and business. Within recent years, the study of these two fields has turned out to be field that aims to understand both the characteristics of the economic, institutional, and cultural structures, as well as the concept and role of entrepreneurship in development (Baumol, Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity 2007). Students of entrepreneurship will undoubtedly be familiar with Israel Kirzner's theory of entrepreneurship (1973). Kirzner's analysis of entrepreneurship begins in an environment where it is assumed that opportunities already exist. His primary focus is on how the entrepreneur discovers these opportunities. This thesis builds on that understanding of the market and Kirzner's theory of entrepreneurship.

We will show that entrepreneurship itself creates more opportunities and thereby explain the origin of opportunities. Furthermore, we will show that it is the exploitation of opportunities that create value and consequently economic growth, not merely discovering opportunities. This is where we find the crucial link between economic growth and the cultural and institutional environment, as these will either be barriers or function as incentives in the process of the entrepreneur's discovery and exploitation of profit opportunities. The implications of Kirzner's theory of the entrepreneur are that, 1) there are institutional requirements needed for the entrepreneurial spirit to be unleashed and 2) if such are in place, the development of a national economy that will be prosperous (Boettke og Rizzo n.d.). This is the reason why an understanding of Kirzner's work is crucial for policy makers not only in Kenya, but for all developing countries.

This thesis is about a very specific topic: how can a nation bring about economic growth? It is an urgent and crucial question for developing countries in their pursuit of escaping the low income bracket and bringing about an improved standard of living. The population of a developing country has a lower purchasing power, but that is far from the only difference between a developed and a developing nation. People in developed nations enjoy greater health, longer lives, and better education. They have the freedom to choose career paths and vacations, and they have access to a range of amenities and other options in life. Developed nations have roads without holes, houses with running water, and reliable electricity. The government officials do not harass or illegally interfere, but provide health care, education, infrastructure, and law and order (Acemoglu og Robinson 2012). The reality is completely different in a developing country. Therefore, this topic is not only stimulating academically, but can potentially have a real effect on policy decisions.

Contemporary development studies widely acknowledge the role of the entrepreneur in economic development, yet the elusive concept of the entrepreneur causes wide disagreement. The market process theorists, of whom Kirzner is one, argue that entrepreneurship is omnipresent and therefore there must be something other than entrepreneurship explaining why some countries are experiencing greater economic growth than others. The market process perspective understands that development causes productive entrepreneurship, meaning development in the form of a nation's institutions and to the extent they incentivize entrepreneurship (Boettke og Coyne 2003). Developing nations typically have formal institutions that are underdeveloped, which brings about an unstable environment and a tendency for the formal institutions to be replaced by informal ones (Puffer, McCarthy og Boisot 2010).

Moreover, the state of the institutional environment is largely depended on cultural values within a given country. The blurred concept of culture can easily be neglected as being insignificant in comparison to the concrete, objective measurements such as inflation rate and GDP growth. Culture increases complexity and hinders universal solutions for all countries (P. J. Boettke 1998). Yet, there is no circumventing that entrepreneurs respond to the cultural environment and the values and beliefs it carries (Lee og Peterson 2000). It is a powerful force that can either encourage or penalize individuals engaging in entrepreneurial behavior. There is a reciprocal relationship between culture and institutions, which weighs heavily on the entrepreneurial incentives. (Mueller og Thomas 2000). With that in mind, this thesis sets out to answer the following research question:

- *How does the cultural and institutional environment influence entrepreneurs and how is that significant for Kenya's economic growth?*

1.2 Scope and delimitations

This thesis is encompassed of two main units of analysis. The primary unit is comprised by ten interviews with various actors from the entrepreneurial scene in Kenya, conducted in February and March 2016. Although we have not covered all types of entrepreneurial activities, we contend that our findings identify key institutional barriers to economic growth. The secondary source consists of statistical data, indexes and reports from the biggest financial institutions, international organizations, and think tanks around the world. We have limited our research to the nation of Kenya, a nation in Sub-Saharan Africa, but not to a specific sector or industry.

As a result of the exploratory nature of the study and the attention given to the institutional and cultural environment, we employ a broad definition of entrepreneurship based on the definition by Shane & Venkataraman (2000) and Israel Kirzner (1973), as a process of discovering and exploiting opportunities. By combining these theories of entrepreneurship, the Kirznerian view can help us understand the institutional and cultural environment needed for the discovery of opportunities, whereas Shane & Venkataraman does the same for the exploitation of the opportunities found.

Institutional theory and an institutional perspective functions as the theoretical lens that we use to approach entrepreneurship. The Index of Economic Freedom (IEF) (Heritage Foundation 2016) and Baumol (2007) function as the basis of our understanding of institutions. We have limited ourselves to use IEF's four pillars as our guideline; 1) rule of law, 2) government size, 3) regulatory efficiency, and 4) market openness. The even bigger lens we use is the concept of culture. Landes' (1999) massive economic study and Grudem & Asmus' (2013) theories of cultural values that are most conducive to economic prosperity, together is the foundation of the cultural analysis of Kenya. Many more cultural values and beliefs are influential and could have been used for the analysis, but we have limited ourselves to five fundamental cultural beliefs, that will be discussed in the literature review.

The aim of considering these is to explore how to bring about economic growth in a nation. We employ a definition of economic growth as when a nation is increasing the value of goods and services it produces from one year to the next. We measure economic growth in the growth of gross domestic product (GDP). In order to assess whether a nation is experiencing increased standard of living, we employ the measurement "per capita income", adjusted for purchasing power parity (PPP). This ensures that the real value of the income for the individual in that particular country is measured. The analysis of this case begins from the year 2010, where the Kenyan constitutional referendum was held and a new constitution put in place.

We have chosen to investigate Kenya's present institutional and cultural environment in the light of our qualitative interviews and theoretical insights that have been formed through the fields of institutional, cultural and entrepreneurial analysis. Although other theories or research foci could have been employed to analyze the topic, we believe that our choice of focus offers a contribution to the literature regarding the relationship between entrepreneurship and economic growth, and how that relationship hinges on the quality of the institutions and the values and beliefs of the culture. As these insights are brought to the discussion on development studies, we contend that they can bring both theoretical value to the academic literature and practical value to policy makers.

1.3 CASE JUSTIFICATION

The focus of this thesis will be on the incentives, or rather lack of incentives, for the entrepreneur as a result of the institutional and cultural environment in Kenya. Still, not unlike other African countries, the recent years have brought increased economic growth in Kenya. The compound economic growth rate over the last five years has averaged close to six percent and Kenya now enjoys a reputation of being the regional hub in East Africa in terms of trade, finance, and in particular, innovation. Entrepreneurship and innovation are concepts so closely attached to Kenya that it has been dubbed "the Silicon Savannah". Specific examples of Kenya's innovative and entrepreneurial success can be found in its renowned mobile money service, M-Pesa, and the nation's high performance within the ICT sector.

In 2008, even before Kenya put into force the new constitution, the government introduced its Vision 2030, which is Kenya's development program ranging from 2008 to 2030. The long-term plan sets out to transform the nation into a middle-income country and a nation where all of its citizens enjoy a high quality of life (Government of Kenya 2007). In achieving this ambitious goal, the government has named three pillars, one of which is economic. Although not specifically mentioned in Vision 2030, the Kenyan government has recognized that entrepreneurial activity strongly contributes to economic growth. Therefore, entrepreneurship, and consequently institutions and culture, offers an interesting case to study as part of the solution of reaching the country's ambitious vision of a GDP growth rate of ten percent by 2017.

1.4 Structure of the thesis

This thesis is made up of 8 chapters. After having introduced the thesis, the purpose of the following chapter is to present the literature review, which will be discussing and defining the essential concepts and decisive theories that we will be applying throughout the thesis. After having defined economic growth, the following part will introduce two proposed models that bring about economic growth and clarify how they are specifically linked to entrepreneurship. Finally, the chapter introduces the institutional and cultural perspective as the theoretical outlook that will be utilized for the analysis.

Chapter three is an outline of the methodological approach used in the thesis and consists of two elements. First, the foundational philosophy of pragmatism is examined, and second, the applied methods are presented. Since the context of a developing country implies an environment entirely different from more developed countries, the chapter brings special attention to how the research applies to such a setting.

The purpose of chapter four is to show why Kenya offers an interesting case for the study of entrepreneurship. The chapter introduces the context of the Kenyan economy and outlines how challenges such as political uncertainty, corruption and inequality have impacted the country. It continues by examining the development of innovation and entrepreneurship within the country, specifically the effects of Kenya's ICT sector, thus providing the reader with necessary information that enhances the understanding of the analysis chapter.

Chapter five is the analysis and is comprised of three sections, as indicated in the literature review. First, we analyze the cultural environment by laboring to make clear the cultural values and beliefs most significant for the entrepreneur. Second, by using the framework of the IEF, we analyze the institutional environment. Third, we examine the current state of entrepreneurship in Kenya and assess the roles culture and institutions have played in shaping its current form.

The purpose of chapter six will be to discuss the findings from the analytical section, and will subsequently identify whether the entrepreneur can find and exploit opportunities, and if he is rewarded for successfully taking on the risk. Moreover, it will investigate what types of profit opportunities are being found in Kenya, and to what degree these are actually economically rewarding both for the entrepreneur and for the nation as a whole.

Chapter seven will conclude the thesis and the eighth and final chapter serves to bring forth recommendations for policy makers, not only in Kenya, but for developing countries in general.

2 LITERATURE REVIEW

The literature review explores the relationships between economic growth, entrepreneurship, institutions, and culture. It will present and review the theory and concepts used throughout this thesis in order to establish an analytical framework to guide the analysis.

The literature review is initiated by defining economic growth and exploring its importance for all individual nations. The following section presents two models for economic growth and endeavors to explain what causes economic growth. Third, we present a brief description of the entrepreneur and the supply of entrepreneurs. Lastly, we will be investigating which institutions and cultural beliefs constitutes a flourishing environment for the entrepreneur.

This thesis is built on some of the ideas Ludwig von Mises (1949) and F.A. Hayek's (1945) and their works on human action and societal knowledge, as well as on Austrian market process economics. To understand what causes economic growth, we set out to understand the ideas of David Ricardo (1817) and Adam Smith (1776) and how their economic ideas affect how we should approach increasing economic growth.

The paper of Sautet (2008) is used to explore the specific link between economic growth, entrepreneurship, and institutions. The concept of entrepreneurship and competition is adopted from Kirzner (1973) and used to show the vitality of entrepreneurs being able to discover and exploit profit opportunities. The works of William Baumol (1990), The Heritage Foundation's Index of Economic Freedom (2016) and Grudem & Asmus (2013) are the primary works used to discover which institutions and cultural values are critical for the entrepreneur to become successful.

2.1 ECONOMIC GROWTH

2.1.1 DEFINITION OF ECONOMIC GROWTH

Growing the economy means to increase the value of the goods and services that the economy is producing over time. When a nation is increasing its capacity to produce goods and services, from one year to another, the nation is experiencing economic growth. The goal, for all nations, is therefore to continually create more goods and services that are valuable enough to be sold in the marketplace every year. Especially for developing countries is this simple goal crucial to always be conscious of (Grudem og Asmus 2013).

Gross domestic product (GDP) is conventionally used to measure the value of what a country produces. GDP is "the market value of all final goods and services produced within a country in a given period of time" (Mankiw 1998, 480) and that normally being a time period of one year. As an example, if you bake a cake and eat it yourself, you are not contributing to the nation's GDP. For a product or service to be counted in the GDP, it would have to be sold on that marketplace where it is possible to attach monetary value to the product or service. GDP growth is typically measured in real terms, adjusted for inflation, and is shown as a percentage rate. It functions as an easy way to compare the value of nations' economies.

Market value becomes a reality when something is created that did not exist before. Value is created by human beings and the process is driven by human beings who look to better their own economic situation. When people create value, motivated by their own personal gain, they are at the same time contributing to the total market value of all that is produced in the nation. This translates into the GDP increasing and we now have economic growth. Value is not added by taking value from others, but by combining input in novel ways and thereby creating output that is more valuable than the inputs by themselves. It should therefore also be obvious that value is not created by transferring something valuable from one person to another. That does not add value to GDP, but the good is simply moved from one person to another and merely qualifies as a good act, that is, if done voluntarily.

Value is inherently subjective and it is therefore important for a nation to understand what goods and services people want and then increase the production of these. These can be sold both domestically and exported internationally. Even though poor nations can look at wealthy nations and wonder how they could ever produce anything that could compete with them, we know that there are opportunities for any country. David Ricardo's (1817) classical theory of comparative advantage shows that no person and no country has the capability to meet all demand and therefore will there always be something that a poor country can sell with a profit. We also know that even though people have limited needs, their wants know of no limitations and people will always be seeking more products and services.

2.1.2 Per capita income

Nations have different population sizes and it is therefore not possible to make a fair country comparison without taking the population size into consideration. The measure used is called GDP per capita or per capita income. It is the result of dividing the GDP with the number of people living in the country. It is arguably of even greater importance than the GDP by itself, as this measure allows for more precise insights into the wealth of a nation and it can tell us what countries are rich and which ones are poor.

Per capita income is not a perfect measure and does not account for the distribution of wealth - to what extent it is equally distributed. There will be cases where the income per capita is relatively high in a country without that being reflected in the general society. That happens when the nation's elite takes advantage of their position and takes control over major parts of the wealth of the nation for their own personal gain. Yet, we do know that if the income per capita is low, the nation will be poor (Grudem og Asmus 2013). Furthermore, if income per capita is high, the population, as a general rule, will have a higher life expectancy, greater health, higher literacy, better sanitation, and cleaner air and water (Moore 2012). The purpose of economic growth is, broadly speaking, to increase the standard of living for people.

Economic growth is the increase of the value of goods and services that a nation produces every year and the growth is important as, if the population remains somewhat stable, it increases the standard of living for the people and continually develops the nation. When that percentage change in per capita income is positive, it means that people's ability to purchase goods and services is enhanced.

This goal is to be seen as opposed to other goals, like pursuing more equal distribution of wealth. If wealth is simply distributed in a nation, that nation will not be increasing the total amount of wealth in that nation. Government-forced equality is the opposite of economic freedom and is diminishing entrepreneurial incentives and is therefore harming economic growth. "A society that puts equality before freedom will get neither. A society that puts freedom before equality will get a high degree of both," said Milton Friedman (1980).

2.1.3 Summary

Economic growth is experienced when a nation is increasing the value of goods and services it produces from one year to the next, a rate that is measured by GDP. People have limited needs but unlimited wants, allowing for endless opportunities to create products and services that people subjectively value. GDP can be divided out on population, which allows for country comparison. This is called income per capita and provides insight to what countries are rich and which are poor, despite some limitations to the measurement. If population stays somewhat stable, a nation that creates more valuable goods and services will experience economic growth and a higher per capita income. With this in place we can now turn to consider what drives this process and how the process is best facilitated.

2.2 Models of economic growth

We have come to a definition of economic growth and how it links to and assessment of whether the people of a country is rich or poor. We now turn to figure out how more goods and services are created, namely how economic growth comes about and what causes it.

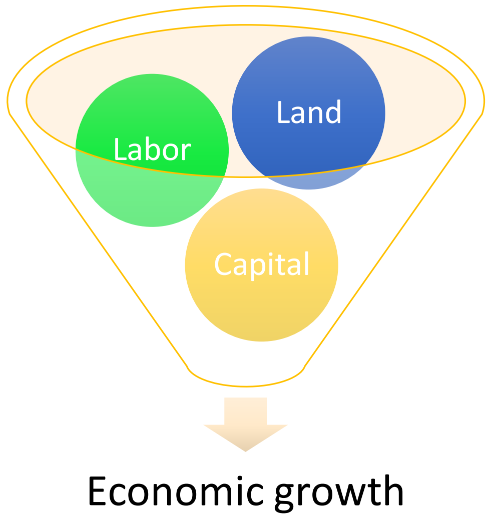
2.2.1 Neoclassical economics

Neoclassical economics, as the primary take on modern-day economics, rely on mathematical models to describe markets and predict human behavior. This understanding of the world can be traced all the way back to David Ricardo (1817) and classical economics from 18th and 19th century. Those economists understood economic output as a production function of the three basic factors of production that were used to produce goods and services, namely land, labor, and capital. Consequently, Ricardo argued that better inputs was the engine of economic growth.

All three factors are by nature limited, but Ricardo argued that capital could be increased from investment, yet only up to a certain point as result of the law of diminishing marginal factor productivity. Furthermore, due to the limited availability of land, economic growth was primarily dominated by population growth. In this perspective, economic growth is limited by scarce economic resources.

As a development of the classical perspective on economic growth, neoclassical economics of the 20th century explained economic growth as driven by technological change, as is best seen in Solow's (1956) growth model. With the addition of technological change, the factors of land

FIGURE A: THE PRODUCTION FUNCTION MODEL



Source: Own Illustration

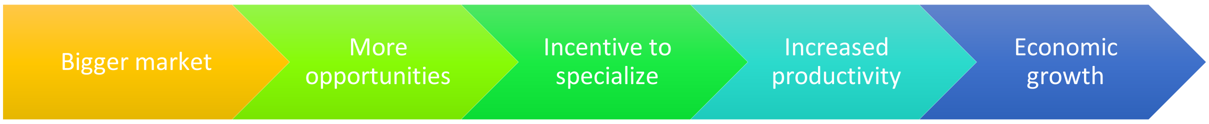
and labor could become more productive as the technology gets more advanced. Still, this model focuses on inputs rather than the process. Understanding the world in terms of inputs has led to an increasingly scientific approach to economics. The scientific approach has become very popular since one, with this theory, can parameterize the factors and fit them into a general equilibrium model. Additionally, it is very convenient for policy makers to take this economic perspective, since, in the simplest terms, better input leads to greater output (Holcombe 1998).

In the general equilibrium model the market is stable as supply perfectly meets demand. This means, by definition, that all opportunities for profit have been competed away. There are no differences in prices or any missed profit opportunities. Therefore, in this neoclassical model, growth comes from producing more of the old goods. Since this model does not have profit opportunities to incentivize entrepreneurs, they explain innovation by research and development (R&D). R&D absolutely does have merit and is an important investment, but R&D tends to go where profit already seems promising. R&D does not cause entrepreneurial opportunities as such, but is a result of what entrepreneurs have already shown to be profitable. The factor of technological change can be seen as being driven by R&D, but R&D does not cause economic growth. It follows growth opportunities. Consequently, something else must be driving economic growth. The neoclassical framework simply is unable to adequately explain the role of the entrepreneur in its model of equilibrium.

2.2.2 AUSTRIAN ECONOMICS

According to Adam Smith (1776), economic growth is a process. His basic thesis is that the division of labor is limited by the extent of the market. As the market grows, it increases the incentive to specialize and invest, and therefore comes increased productivity and growth. Opposite Ricardo's view, there are virtually no limits to economic growth.

FIGURE B: ADAM SMITH'S MODEL OF ECONOMIC GROWTH



Source: Own Illustration

Holcombe (1998) describes the entrepreneur as being the engine of Smith's growth machine and this is where Kirzner's (1973) entrepreneur enters the picture. Kirzner describes entrepreneurship as the process of discovering and acting upon a profit opportunity that up until that point had gone unrecognized. When the entrepreneur discovers the opportunity to make a profit, he acts upon it and makes a profit in the market until competition increases and eventually eliminates the profit opportunity. He makes the economy more productive as the result of his entrepreneurial act in that he can offer a higher consumer satisfaction at a lower price.

Most often entrepreneurial opportunities come from insights made by other entrepreneurs. "Acts of entrepreneurship create an environment within which innovations build on themselves, leading to continually increasing productivity," said Holcombe (1998). The source from which entrepreneurs develop their new products and processes, is by combining ideas from previous entrepreneurial activities. It is because Gordon Moore invented the microprocessor that Steve Jobs was able to build the personal computer.

The nature of the entrepreneur is inherently dynamic. As an agent of change, the entrepreneur changes the economic environment, leading to new opportunities. As entrepreneurial activity creates goods and services of value, there will be more goods and more opportunities for increased specialization (the extent of the market has increased), which means more entrepreneurial opportunities. The entrepreneurial insight creates new market niches and these new markets is key link between entrepreneurship and economic growth (Holcombe 1998).

To understand the link between economic growth, entrepreneurship, and institutions, one can set it up as a chain of arguments. First, economic growth depends on capital accumulation, which, secondly, both follows and is the result entrepreneurs finding profit opportunities. Third and last, entrepreneurs being able to find and exploit opportunities depends on the institutional environment.

The last argument shows us that institutions are crucial for economic growth. It also shows us that there are two types of incentives that have to be in place for entrepreneurs to be successful. One is the entrepreneur's ability to notice undiscovered profit opportunities, and the other is whether the entrepreneur is able to exploit the opportunity once noticed. The freedom and ability for entrepreneurs to *notice* opportunities is ensured by protection of property rights. The freedom to *exploit* profit opportunities is ensured by removing insecurity about whether government will abuse the entrepreneur's private property (Sautet 2008).

Individuals will engage in entrepreneurial activities as long as there is an incentive to do so. If their property and profits are secure, they have an incentive to explore arbitrage activities. These activities, a type of entrepreneurial activity, are driven by entrepreneurs engaging in a market with different prices and works to allocate resources in a more optimal way and thereby bring about economic growth. Entrepreneurs will stop looking for profit opportunities if their property is not secure and that will, undeniably, be detrimental to economic growth. That is why government should enforce and protect private property rights.

Other than being encouraged to discover opportunities, entrepreneurs need to be sure that they can also exploit these opportunities. That means they need to have confidence that the government will not interfere in their activities. When that is a reality, productive entrepreneurship is encouraged. If the burden of regulations and taxes is high, the entrepreneurial incentive to exploit opportunities will be low. That will be the case for both entrepreneurial courses of action already discovered and for entrepreneurial courses not yet discovered (Kirzner 1985).

Government, therefore, can cause two kinds of disincentives for entrepreneurial activity: noticing and exploiting opportunities. With such disincentives opportunities for greater gains from trade is overlooked. This will limit economic growth because, as we argued, capital accumulation both follows and is the result of entrepreneurs exploiting opportunities. Not only that, if productive entrepreneurship is not encouraged, it will lead to unproductive activities, such as trying to avoid formal institutions and the legal system. As a result, if freedom is limited it will hinder entrepreneurs in creating wealth and economic growth for the nation. That is because entrepreneurs need both to be able to discover and exploit opportunities (Nicoara 2015). Quality institutions brings about an environment where entrepreneurship will flourish, leading to capital flowing in and resulting in economic growth.

2.2.3 Summary

A scientific, mathematical understanding of economics can be traced back to David Ricardo, who argued that economic output, goods and services, is a result of three basic inputs. A worldview that sees economic growth as limited because of scarce resources. The neoclassical economists argued that technological change is what drives economic growth as it could make the other inputs more productive. Technological change can be caused by research and development, an input that government can invest in, but it is not able to explain the entrepreneur.

Adam Smith argued that when market grows, increased division of labor is incentivized, followed by increased productivity, resulting in economic growth that is virtually unlimited. Kirzner's definition of the entrepreneur explains how the entrepreneur makes the economy more productive after the market has grown, by discovering and exploiting the bigger market offers. Additional entrepreneurial opportunities come from this entrepreneurial activity, leading to even more entrepreneurship. Economic growth, therefore, depends on capital accumulation which comes from entrepreneurs exploiting opportunities. Entrepreneurial success is a function of the institutional environment and therefore has to be able to both discover and exploit profit opportunities. It is with that in mind we will now move on to what the entrepreneur does.

2.3 Perspectives on the entrepreneur

2.3.1 The beginnings of entrepreneurship

Entrepreneur, which origins in the French language, means “to undertake” (Oxford University Press 2013). Entrepreneur has traditionally been used to refer to an individual undertaking a business venture (Sobel 2008). In the academic world and amongst economists, the understanding of the entrepreneur started as someone who undertakes a business venture and bears the risk with his personal finances (Cantillon 1730). Jean-Baptiste Say (1803) then added that the entrepreneur is one that creates value by combining resources from less to more productive areas. John Stuart Mill (1848) described the entrepreneur as both taking on risk and being in charge of managing the business, as distinct from owners such as shareholders of a corporation who do not manage the business, but who does simply that: they own. The academic understanding of entrepreneurship has since been refined by Joseph Schumpeter and Israel Kirzner, both from the twentieth century.

The essence of entrepreneurship is that they are people who create value. They engage in the process of combining resources in a new way and thereby creating more value than those resources could have done left to themselves or in some other combination. This process results in a profit as a reward for the entrepreneur. On the other hand, the entrepreneur who incurs a loss, has reduced the value of the resources he has combined. Those resources could have been used to produce a higher value somewhere else. Consequently, the entrepreneur is someone who acts to organize, manage, and take upon risk in investing in a business. Inherently, the entrepreneur is an agent of change (Sobel 2008).

The study of entrepreneurship became of academic interest when, after World War II, economists began to try to explain the gap between the poor and wealthy nations (Boettke og Coyne 2006). They looked to entrepreneurship as they began studying economic growth. As economists study economic growth and development today there is broad consensus that entrepreneurship plays a crucial role. The entrepreneur is described as “the driving force of the market” (Kirzner 1992) and as “the engine of economic growth” (Minniti et al., 2006). The topic of entrepreneurship is very present in the public discourse, in spheres ranging from policy making, academics, to business. Countries pursuing growth all over the world are therefore searching for ways to foster entrepreneurship and thereby increase the supply of entrepreneurs.

How and to what extent entrepreneurship is linked to growth is still a topic upon which there is disagreement, despite everyone seems to be agreeing, on a surface level, that entrepreneurship leads to economic growth. Baumol (1968, 64) describes the entrepreneur as "one of the most intriguing and at the same time most elusive characters in the cast that constitutes the subject of economic analysis."

2.3.2 The supply of entrepreneurship

Due to the lack of clarity, two main views have developed with an explanation of entrepreneurship in market changes. It is important to understand the differences of these two theoretical approaches, since their policy implications are vastly different. No matter what view one has, both agree on some degree of link between entrepreneurship and economic growth and therefore desires more entrepreneurship. Economic growth is important for all nations at all times, nevertheless for developing countries it is an even more urgent and important result to achieve. The view one takes dictates how one believes that the level of entrepreneurship in a nation is increased.

The first one is termed behavioral and this view requires a certain type of individuals to become entrepreneurs. The number of entrepreneurs in a society depends on the combination of talent, skills, and cleverness, as that is an indicator of successful entrepreneurship. A behavioral perspective implies that policy makers and academics will be studying and copying what is perceived to be the psychological qualities that cause entrepreneurs to be successful. If one can determine what unique set of qualities that results in successful entrepreneurial activities, this can be taught in schools and easily replicated throughout society (Nicoara 2015). It links well with Ricardo's perspective of economic growth being determined by finding which inputs determines and increases output. If that can be defined, policy makers can increase the quantity and quality of that input.

The other view can be called cognitive perspective and argues that entrepreneurs are everywhere. Ludwig von Mises argued that "in any real and living economy, every actor is always an entrepreneur" (Mises, 1949, p. 253), because at any given time, it is human behavior and inclination to seek one's own best. The human action will be a product of how the individual subjectively perceives technology, resource availability, market knowledge, and how he or she changes their preferences (Mises 1949). This also means, that if the individual perceives that their resources to be insufficient or they do not have available what is required to be successful, they will not engage in entrepreneurial activity. The cognitive view argues that entrepreneurship is omnipresent and successful entrepreneurship is a result of quality institutions.

The engine of growth is not driven by bettering inputs, as the Ricardian production function argues, and this method should therefore have less focus. The attention needs to be shifted towards incentives that alter the production process. Human and physical capital still remains inputs in the production process, but without the entrepreneur they cannot create economic growth in and of themselves. If entrepreneurship is accepted as the engine of economic growth, emphasis necessarily goes to creating an environment that is optimal for entrepreneurs, so that they can take advantage of discovered opportunities and be rewarded for successfully taking on risk. An environment that encourages entrepreneurship will attract human and physical capital, and this explains how investment and economic growth is connected. As a result, focus should be on institutions that make up the environment, rather than the inputs of the production function (Holcombe 1998).

2.3.3 Summary

Entrepreneurs create value and thereby are they contributing to the goal of increasing GDP, resulting in a higher per capita income. To increase the supply of entrepreneurs, the behavioral theory says that entrepreneurial traits should be replicated and that it therefore can be government guided. The cognitive perspective, on the other hand, argues that entrepreneurs are everywhere and simply need the right incentives and environment to be successful. As a result, economic growth should not be seen as something to be reached simply by putting some inputs into a black box, but ensuring entrepreneurs freedom to do what they do best, namely create value.

2.4 Institutions

Institutions are hard to measure and are easily forgotten in the complicated mathematical models in contemporary growth theory. Labor and capital are more easily measured than is to what extent property rights are being protected. Yet, it is important to remember that entrepreneurship creates the opportunities that enables human capital, R&D, and investment to respond to growth opportunities. Entrepreneurship is the underlying cause of economic growth and the other inputs are components of the production process. With this understanding of entrepreneurship, economic growth theory is pushed in a direction that looks more at the institutional setting in which growth can happen (Holcombe 1998). Therefore, we now turn to what kind institutional environment encourages and rewards entrepreneurs as they seek to discover and exploit opportunities.

2.4.1 The right system

The question really is, since entrepreneurship leads to economic growth, how then can government promote entrepreneurship? The prevailing belief so far has been that government programs is the greatest way to encourage entrepreneurship. These include government-managed loan funds, government subsidies, government-funded business development centers, and entrepreneurial studies in public schools. This belief falls under the production function perspective, neglecting the real cause of economic growth (Sobel 2008). Due to predominance of the production function approach to economic growth, we have seen policies that were aimed at "increasing both the quantity and quality of inputs through investment, incorporation of modern technology, and education. In many less-developed economies, the results have been disappointing" (Holcombe 1998).

Nonetheless, the system that best enables entrepreneurs to act and exploit the profit opportunities they discover is the free-market system. This is a system where production and consumption is not determined by government, but by the free choices of individuals. People own the means to production, not government. It means that people are free to choose to work and is not compelled by anyone, not even the government. The free market system lets people keep the fruit of their labor. The free market works by itself and government need not interfere. Rather, it simply has to get out of the way (Grudem og Asmus 2013).

With freedom comes prosperity. As people seek their own best, they do not only increase their own wealth but the wealth of the entire nation as they increase the goods and services produced. In the words of Adam Smith (1776), "the security which the laws in Great Britain give to every man that he shall enjoy the fruits of his own labor, is alone sufficient to make any country flourish… The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance… capable of carrying on the society to wealth and prosperity."

Kreft and Sobel (2005) show that entrepreneurial activity is highly correlated with freedom as defined by the Heritage Foundation's Index of Economic Freedom (IEF). The IEF measures premarket institutions and to what extent they exist in a nation. Those countries that have the greatest level of economic freedom in today's world, based on 10 different factors, have the highest per capita income (Heritage Foundation 2016). The wealthy nations that have high per capita income, all have become wealthy from various types of a free-market system. No other economic system has brought a country from poverty to prosperity (Grudem og Asmus 2013). The reasons why economic growth comes from freedom is that it fosters entrepreneurial activity (Sobel 2008).

As Mises, Baumol (1990) and Boettke (2003) note, entrepreneurship is everywhere, but the entrepreneurs tend to go into or lobby government, if the society is government-controlled. This tendency leads to wealth-destroying activities such as subsidies, regulations, and tariffs (Sobel 2008). Therefore, we ask, what institutions need to be in place for entrepreneurs to be able to produce wealth and not be incentivized to engage in unproductive activities?

2.4.2 The free institutional environment

"The rules of the game" or institutions, influence the choices people make. The economic system is the foundation for incentive structures. Incentives are also provided through the market in the form of prices, profits, and losses as people interact. If you want people to behave a certain way, you set up incentives that encourages and rewards such a behavior. If a nation wants to encourage entrepreneurship, the nation should put into place institutions that foster entrepreneurship (D. Lee 1998). On the other hand, the freedom of the individual will be restricted if the government puts up excessive regulations and licensing laws, which will hinder them in following their dreams. It tends to restrict entrepreneurs in creating value and wealth, as these barriers makes it harder for people to find and exploit opportunities.

Since we have argued that the free market system is the best system to encourage economic growth, we now turn to what that looks like. The IEF gives a comprehensive view of economic freedom and helps us determine what institutions are the most important for a nation to focus on as being of highest quality. Government control is necessary, but to a limited extent. The government is to defend the country and promote peaceful progress in the society. History shows that governments have, sometimes with the noble cause of equality, imposed economic constraints on economic activity. When politicians make the decisions instead of the market, entrepreneurs will be given incentives to pursue unproductive and rent-seeking activities. Such an environment does not lead to growth.

The IEF looks at ten institutions, divided in four categories, of economic freedom (Heritage Foundation 2016). They are intended to increase both individual and national prosperity and the factors often complement each other. Baumol (2007) has the somewhat same categories. He argues that it has to be easy to start and grow a business, that successful entrepreneurship has to be rewarded, that activity that divides up the economic pie rather than increasing it should be discouraged, and that there should be incentives to innovate and grow in order to avoid economic stagnation. Here follow the most important institutions for entrepreneurs to be able to flourish and thereby increase economic growth, based on nine institutions of the IEF.

2.4.2.1 Rule of law

A nation that desires to increase its economic growth rate has to encourage productive activities that enlarge the economic "pie", in contrast to unproductive activities that are attempting to get a greater share of the "pie" that already is. Therefore, in addition to ensuring that entrepreneurs can easily start their business, there must be institutions in place that safeguard that they are rewarded for their success (Baumol 2007).

2.4.2.1.1 Property rights

Private property is probably the most essential motivating force for entrepreneurs and everyone else in society. People need to be able to accumulate wealth by keeping the fruit of their labor. It ensures that entrepreneurs can discover opportunities. That means that property rights have to be both recognized and protected by the rule of law. If people know that their income, savings, and property is safe from expropriation and theft, entrepreneurs will be confident to undertake entrepreneurial activity.

Individuals bear a high risk when they endeavor into entrepreneurship and for that they should be appropriately remunerated. When they undertake their entrepreneurial activities, they must be allowed to keep what they gain from their success. This is what property rights ensure and protect. Entrepreneurs must have rights to keep the money, land, and goods they gain from their undertakings (Baumol 2007). This necessitates that the judicial system be autonomous and accountable, therefore treating everyone equally under the law. If the judicial process is transparent and effective, it will increase trust and confidence for the population.

For property rights to be protected, also contracts have to be enforced. Gains from commercial exchange is founded on parties being able to voluntarily enter into a contract and take upon them the contractually assigned obligations. It should therefore be one of governments main responsibilities to ensure that private contracts are enforced in the marketplace, as that increases entrepreneurs' confidence (Heritage Foundation 2016). For people to be able to trust each other, this institution must be in place to facilitate trust. This trust is fostered by contracts being honored as people enter into agreement with each other (Baumol 2007).

2.4.2.1.2 Freedom from corruption

Corruption is when people in power takes advantage of their position for their own personal gain at the expense of the rest of the population. It is a fundamental failure of integrity in the economic system. Corruption can take many forms; bribery, extortion, nepotism, cronyism, patronage, embezzlement, and graft (Heritage Foundation 2016). According to the Heritage Foundation's data, there is a direct relationship between the prevalence of corruption in the society and the degree of government intervention in economic activity. That is especially if regulations are excessive or straight out redundant, since that will allow for corrupt government officials to take bribes and graft. In order to effectively fight corruption, it is absolutely crucial to ensure transparency and openness in regulatory processes and procedures (Heritage Foundation 2016).

2.4.2.2 Government size

2.4.2.2.1 Fiscal freedom

Are people allowed to do with their income and wealth as they wish? Does the government allow entrepreneurs to keep the wealth they create, or do they impose fiscal burdens through taxation? If the reward for entrepreneurs to engage in value-creating activities is low, the incentive is naturally low. The reward is low if the government's share of individuals' income is high. Not only does it take the incentive to work away, it hinders entrepreneurs in following their goals and be successful, and is thereby lowering the value of the goods and services the nation produces. Income tax, for both individuals and corporation, has a direct link to economic freedom, but a government can, and often do, impose many other forms of taxes, ranging from value-added tax, tariffs, to sales, etc. (Heritage Foundation 2016).

2.4.2.2.2 Government spending

The government needs to provide certain public goods that benefit the entire society and some of the government's spending can be considered investment, like in the form of infrastructure, research, and human capital. The cost of providing funding for the government's spending is taking the consumption and investment that would otherwise have happened in the private sector. The price for more government spending is higher taxation as well as the opportunity cost.

Government spending can lead to temporary growth, but it distorts private investment incentives and therefore runs a great risk of limiting entrepreneurial activity. When the government decides to run something it excludes itself from being under market discipline, which tends to lead to lower productivity, inefficiencies, bureaucracy, and a high public debt for the next generations to deal with. When the public debt burden is high, it lessens freedom which entrepreneurs need to be able to find and exploit opportunities (Heritage Foundation 2016).

2.4.2.3 Regulatory efficiency

2.4.2.3.1 Business freedom

Business freedom measures the degree of unjustifiable interference from the state in entrepreneurs' right to start and run a business. One way to make it easy for entrepreneurs to start a business is to have the formal costs of starting a business low. That includes costs such as registering a business or property. This condition can be clearly inferred since that is exactly what entrepreneurs do; start and run businesses. Higher costs inescapably makes it harder for entrepreneurs to succeed in the marketplace (Baumol 2007).

Costs are not the only thing. Government can impose licenses for starting a business that requires the filling of complex applications and allow for them to take an extremely long time to get approved. Such a process can involve numerous visits to government offices and be made even more challenging by having to deal with bureaucratic officials that are corrupt and officious. Furthermore, when a business is up and running, regulations can hinder decision-making. That is especially if the regulations are not applied and imposed evenly and consistently, since that hinders entrepreneurs in long-term planning by creating a business environment that is unpredictable (Heritage Foundation 2016). These processes could be made easier by increasingly taking advantage of the use of the internet. If not all, many of these activities could be done online (Baumol 2007).

If the burden of registration is excessive, entrepreneurs will tend to go from formal to informal methods of registering their enterprise. The informal way is using bribes or going without the necessary formal approvals and licenses (Soto 1989). This might be seen as rational behavior on behalf of the entrepreneurs, but the nation suffers economically in several ways. First, the firms tend to stay small as they need to avoid the government authorities, since they normally would not be paying taxes. Secondly, since the entrepreneurs will not own the property officially and it will not be formally registered, they will not be able to use the property as collateral for a bank loan and thereby get credit for their business. Thirdly, this leads to limited opportunities for growth, as they can only expand based on savings, support from family and friends, and informal lenders who often will charge incredibly high interest rates (Baumol 2007).

The negative consequences of excessive regulations do not only hinder and harm individuals, but the entire nation. De Soto's study (2000) estimates that because so much property is not owned formally but informally, that in 2000 there was "dead capital" throughout the world amounting to an incredible amount of $9 trillion. That is dead capital that the owners could not use to finance and invest in their business in order to produce value in their respective nations and increase GDP. De Soto's work has inspired the World Bank to make a yearly report, *Doing Business* (2016), that gathers data which measures the costs and time on attaining such registrations.

2.4.2.3.2 Monetary freedom

There is no theory that has been accepted as *the* monetary policy that best leads to a free society. What most theories support is an independent central bank, that low inflation should be pursued, and price controls distorts markets and results in shortages or surpluses. Market-determined prices and a stable currency gives the monetary freedom that people need to create long-term value and gather capital with confidence. If inflation is allowed it raises costs of doing business and functions like an invisible tax that confiscates wealth (Heritage Foundation 2016).

2.4.2.4 Market openness

2.4.2.4.1 Trade freedom

A nation can be open to trade by letting goods and services cross its boarders and allow people to trade with anyone from around the world. Freedom to trade brings numerous benefits. It allows people to follow their goals and the competition forces entrepreneurs to become even more productive, leading to increased economic growth. On the other hand, restrictions and limitations to trade are very harmful for a country's economic growth. It can take obvious forms of tariffs, export taxes, and trade quotas and bans, but it can also be less obvious as when it appears as regulatory barriers. The price that consumers pay for imported goods will therefore increase. It obstructs economic growth because entrepreneurs may produce more than is economically efficient of a protected good. Where there are trade barriers, entrepreneurs will be restricted in getting their hands on the newest and most advanced technology, which will naturally limit them in the reaching their goals and be successful in their endeavors (Heritage Foundation 2016).

2.4.2.4.2 Investment freedom

The greatest number of entrepreneurial opportunities is ensured by a free and open investment environment. It is great for entrepreneurs who take risk in the expectation of a greater return than the investment they put in. When there is investment freedom, there is transparency and equity that supports all types of entrepreneurial activity. If only the large and strategic firms can be invested in, it will limit innovation and competition in the market. Opportunities come from the efficient allocation of resources. When individuals themselves can choose where to invest, the capital goes to the sectors and activities where there is the greatest return.

On the other hand, entrepreneurial activity will be lower the more investment restrictions the government imposes. It is because the freedom of entrepreneur, as well as investor, to respectively seek investments and make investments, is limited (Heritage Foundation 2016). If the capital is not coming when an entrepreneur has a good idea, then the size of his business will be unable to reach its potential. Investments will strengthen entrepreneurs and lead to economic growth. Consequently, nations with blossoming entrepreneurship will be characterized by having a financial system that is willing and able to take more risks with their investments (Baumol 2007).

2.4.2.4.3 Financial freedom

Banks functions as intermediaries between investors and entrepreneurs. When the banking environment is open and free, competition is encouraged and ensures that the financial intermediation is efficient. The government can ensure transparency and integrity in the banking system and in sectors with other financial services by regulating these institutions. Yet, if the government goes beyond assuring transparency and integrity in the financial markets, it will lead to inefficiency, limited competition and increased costs for entrepreneurs (Heritage Foundation 2016).

2.4.3 Summary

The free market is the best system for the entrepreneur to discover and exploit profit opportunities. It gives the entrepreneur freedom to seek to improve his own situation and through that wealth comes to the entire nation. The “rules of the game” that encourage entrepreneurship are divided into four categories; rule of law, government size, regulatory efficiency, and market openness. If a nation desires to experience economic growth, it needs to pursue policies that will result in these nine institutions being of the quality described.

2.5 Culture

2.5.1 The Significance of Culture

Culture has a critical importance for entrepreneurship no matter how one defines it. David Landes (1999) concludes his massive economic study on how economies have developed in the history of world by saying, “if we can learn anything from the history of economic development, it is that culture makes all the difference” (p. 516). Nonetheless, there is no far-reaching agreement in the research literature on how exactly culture affects entrepreneurial behavior.

We have established the importance of the institutional environment for the entrepreneur and how this can foster economic growth. In similar manner, Grudem & Asmus (2013), argue that cultural beliefs and traditions can hinder or encourage economic development. The claim is that “cultural values of a nation determine what kind of economic system it adopts, what kinds of laws and policies the government enacts, whether corruption is tolerated, whether freedoms are protected, and what kinds of goals individuals set for their personal lives” (p. 309).

Baumol (2007) argues that Landes is wrong. From history he draws the conclusion that institutions impact culture, that the right institutions will make all people seek the rewards set up by them. We, on the other hand, find it hard to believe that one extreme is more correct than the other. We find it very unlikely that government officials and leaders of the country will improve the institutions so that they encourage economic growth, if the people in possession of power do not have the cultural belief that government exists for the good of the people and not for personal gain. Yet, we also find value in Baumol’s argument that incentives can encourage slothful people to show behavior that values economic growth.

We find the literature putting value on culture the most convincing. We will, therefore, argue that a nation that desires to see economic growth will, to some extent, have to work to make the culture more conducive to growth. That work, as Baumol reasons, most certainly can be done partly by inserting incentives that reward the behavior and attitude. Time is needed, though, to turn behavior and attitude into value and belief. We therefore turn to look at what kinds of cultural values and beliefs that will create an environment that will make entrepreneurs flourish.

Before we do that, however, we have to acknowledge that changing cultural values and beliefs will inevitably take a long time. Culture is a result of a nation’s customs, music, history, beliefs, languages, and so many more factors. Yet, we have historical evidence that shows that it has been done, as Lawrence E. Harrison (2006) shows in his book, “The Central Liberal Truth: How Policies Can Change a Culture and Save It From Itself”. Here he shows examples of how cultural values have been changed in several countries and provides effective ways for how leaders can lead a country into greater economic growth by altering cultural values.

The cultural values are based upon the 1948 United Nations Universal Declaration of Human Rights (The United Nations 1948), which argues that:

1) Life is better than death
2) Health is better than sickness
3) Liberty is better than slavery
4) Prosperity is better than poverty
5) Education is better than ignorance
6) Justice is better than injustice

This literature review on how culture affects entrepreneurship is based on these moral absolutes. Furthermore, these will be cultural beliefs as much as cultural values. It is for the population to believe that these values are morally right for it to be impactful on the entrepreneurial environment.

2.5.2 CULTURAL BELIEFS

2.5.2.1 Beliefs about moral standards

2.5.2.1.1 Truthfulness

Trust plays a significant role in all business transactions. Buyer and seller both rely on the other party living up to their end of the agreement when doing business, otherwise confidence drops and costs increase in terms of insurance, lawsuits, and so on. As soon as the culture accepts lying, the economic system starts falling apart. Products do not meet quality requirements, goods have to be quality-checked multiple times, and invoices and accounting reports are inaccurate. Economic efficiency drops as the culture no longer feels shame when lying (Grudem og Asmus 2013). David Maranz (2001, 185) describes what many African societies believe about honesty and truth:

"You make an agreement with a painter on painting your house. He will paint the house for a set amount with the cost of the paint and other materials being separate. He begins to paint, with an advance on the contract price, but then he stops. Days go by and he does not show up… You query him why the job is not finished. He then informs you there was a mistake. The price you gave him was too low and he cannot continue unless you increase the amount you will pay."

Landes (1999), after his massive historical study, found that the ideal society for economic growth will be an honest society. It should be enforced by law, but the enforcement should not be needed since, in the ideal society, people would believe that honesty is morally right and live accordingly.

2.5.2.1.2 Private property

It is crucial that the society believes in the value of private property, since that will be the foundation on which an economic system of protection of property rights will be built on. If private property is not believed in as being a moral right, it will lead to property not being respected and stolen. Maranz (38) shows what it looks like in some cultures in Africa, when property is not respected:

> "Precision is to be avoided in accounting as it shows the lack of a generous spirit. Precision and rigor in keeping accounts show a lack of generosity. It is non-trusting. It is not what a friend does. Moreover, it is foreign, threatening, and indicates a lack of understanding of the needs of ordinary people."

Maranz (152) also shows that when private property is not respected, it leads to failure in paying back loans:

> "Banks often go bankrupt because individuals and governments do not repay their loans, which are in effect uncollectable… Practically no one repays a loan voluntarily, even if a promissory note or other document has been signed. I think there is also an underlying concept that a bank is there to provide and loan money – its coffers are full of money, it has far more money than I do, and therefore is it not a little absurd to think of me giving money to a bank? A bank, and people of means, are to be givers, not receivers."

Such a culture negatively affects the entrepreneur. The profit he gains may suddenly be taken away by someone who "needs" it more. The entrepreneur is also less likely to be able to take a loan out for his entrepreneurial activities, since a bank will most likely not be repaid. It makes it harder for entrepreneurs to hire people, since there will exist a concern that the employee will misuse the funds he has been entrusted (Grudem og Asmus 2013).

2.5.2.2 Beliefs about human nature

If the people believe that they themselves, and not outside factors, are responsible for their actions, then those who decide to do good should be rewarded accordingly. Since they add value and economic wealth to the society, they should benefit from their work. On the other hand, those who choose to do evil should be punished according to their crime. When people believe that, then success is celebrated and encouraged. It naturally follows, that what a culture puts value on is reproduced and replicated. If the culture does not believe in personal accountability, people will tend to think they are entitled to the profits that other entrepreneurs make, harming the entrepreneurs' opportunities for further growing their business (Grudem og Asmus 2013).

2.5.2.3 Beliefs about time and change

When a culture believes that time is linear, and not circular, they believe improvements can be made and a nation can move on to better things, rather than the same things happening again and again, leading nowhere. With that belief there is a responsibility to use time in a positive way and improve circumstances. From this worldview flows a desire to invent and improve (Landes 1999).

When the cultural belief is that problems can be solved and life improved, people will be much more eager to make things better and be willing to take risks. An inherent characteristic of entrepreneurial activity is willingness to take on risks and therefore it is important what a culture believes about time (Grudem og Asmus 2013). Landes (1999) again describes the ideal society as being one where people prefer new over old, and risk and change over safety.

For a culture to encourage risk-taking it will have to have a high tolerance for entrepreneurs failing and going bankrupt. If the culture sees bankruptcy as something shameful, people will be less likely to try something that might fail because of the stark social stigma attached. If a culture penalizes people who fail, there will be less entrepreneurial activity (Baumol 2007).

2.5.2.4 Beliefs about work and economic productivity

The ideal life can either be seen as one of joyful productivity or as a life of ease. If people value to simply enjoy themselves and to not work, then the culture will produce people who try to trick the system. People will be "lazy, wasteful, dishonest, unfaithful to commitments, frequently late, disrespectful, arrogant, discontented, and careless in their work" (Grudem og Asmus 2013, 348), which is a description that hardly fits the successful entrepreneur.

When productive work is honored in a society, productive work will come and result in economic growth. Culture should honor entrepreneurs that create value in form of both big and small companies, innovators and inventors for what they create, and people who pursue careers that produce economic value. When an economy is experiencing growth, there will be plenty of opportunities for entrepreneurs to create niche markets of what other entrepreneurs have created. As Adam Smith argued, the extent of the market thereby increases, letting specialization become worthwhile.

Such a culture will also value savings in contrast to spending excessively on oneself. When people save money it shows that they are willing to take care of themselves instead of depending on others. When children become entrepreneurs and have the full responsibility of taking care of their parents, the burden is so big, both in terms of expenses and time, that they "lose" money could otherwise have been invested in their business. Savings can also be a good foundation to fund an entrepreneur's start-up.

2.5.2.5 Beliefs about government

This cultural belief is, although the last one listed, possibly the most important one. It affects all the institutions mentioned, because this belief determines whether the government will work for the good of people or for their own personal gain. When the population deeply believes that the government exists for the people, this cultural value will be the strongest weapon against corruption. In such a culture, those who have work in government will seek policies that foster economic growth, an environment in which the entrepreneur flourishes.

If the cultural belief is that government jobs exist for them to rightfully enrich people in those positions, their friends, and family, then the people will accept a much higher level of corruption and bribery. Laws will be implemented that safeguard those already in power and help them to be able to become even wealthier. The decisions that the government makes will not be for the good of the people, but for the good of those already in power. It is when government officials believe that government positions are to be utilized for personal gain rather than for good of the people, that entrepreneurs suffer.

In addition, it is important that the culture believes that government should punish evil and promote good, linking back to the human right that justice is better than injustice (The United Nations 1948). If the culture believes that, then government will not favor those of their friends who do evil or to those who bribe them. Instead government will work to protect the people from those with evil intent to harm them.

2.5.3 Summary

Culture is determining the institutions, laws, and policies that will be enacted by the government of a nation. It influences whether the government exists for the good of the people and to protects its people's freedom or if corruption will be tolerated. Five general beliefs are considered as being highly influential on economic growth, as it makes up the environment in which entrepreneurs are to find and exploit opportunities.

3 METHODOLOGY

Presented in this chapter will be the research methods applied to the project in order to answer the research question. The first section will address the explorative nature of the research. Secondly, we will address the philosophy of science chosen and the considerations in making that decision. Following is a section that addresses the method of doing field research and specifically address the reflections made when doing research in the setting of a developing country. Subsequently we will present the methods and steps used for collecting data as well as for analysis. Lastly, we reflect on the strengths and weaknesses of the methodology we have used.

3.1 PURPOSE AND NATURE OF RESEARCH

The aim of this thesis is to do research in a scientific manner on the topics of the institutional and cultural environment, and how it relates to economic growth as driven by entrepreneurial activity, and thereby offer a new angle on an important academic field. Furthermore, by applying this to a context of developing countries, we believe that this study, in addition, will be a contribution that is beneficial for practitioners. We are convinced that our findings and recommendations will be helpful for professionals in the field of international development and policy makers alike.

The literature review revealed that there is a need for more research on how the institutional and cultural environment encourages, or discourages, entrepreneurial activity in government's pursuit of economic growth in developing countries. Even more specifically, there is a need for accessing knowledge to the specific problems that the local entrepreneur is facing. As a result, the nature of the thesis will be explorative. With the aim to reach an increased understanding of particular concepts or contexts, an explorative approach is advantageous in situations of limited knowledge in the field (Jeppesen 2005). Since the main purpose of this thesis is to explore the relationships between concepts such as institutions, culture, entrepreneurship, and economic growth, the study will also include descriptive elements that will explore and explain these.

3.2 PHILOSOPHY OF SCIENCE

Philosophy can be branched out into a what is called philosophy of science, where the methods and implications of science are considered. Philosophy of science is about how one defines the purpose of science and how knowledge is acquired. The philosophy of science will guide the perspective taken by researchers and will function as the theoretical "glasses" that is put on when attempting to analyze and interpret the empirical observations. It can be divided into ontology, the study of a phenomenon or being, and epistemology, the method of how an understanding of the phenomenon is reached. Therefore, the philosophy of science that undergirds the research is a deliberate choice (Bechara og Ven 2007). Research designs hinges on the philosophy chosen and therefore it is important to consider what philosophy is chosen. The following will sketch out some contrasting worldviews, leading to different philosophies of science, and will work to explain the stance that we have taken as researchers of this study.

Philosophies of science can be seen as a continuum with positivism on the one end and with relativism on the other end. These have opposing understandings of ontologies and epistemologies. The ontology of positivism says that there is an external reality that exists without depending on any cognition and that this knowledge is obtained by observation in external reality. The ontology of relativism says that knowledge is not absolute, but exists in relation to context, whether that be culture, society or history. Social constructionism springs out of relativism and argues that meaning is given by people and is thereby socially constructed (Esterby-Smith et al., 2008). Positivism, on the other hand, argues that people do not make sense of the world through their social interaction, but that language is value free and therefore correctly mirrors the empirical world (Bechara og Ven 2007).

Naturally one finds various strands of realism and pragmatism in between the two outer limits. Despite having different perspectives on ontology, pragmatism can often be characterized by having a subjective epistemology. That means that pragmatism habitually evaluates theories depending on their successful practical application (Bechara og Ven 2007). Realism is exactly the opposite, with an objective ontology and varying epistemology. This thesis is built on a philosophy of science that lies in between pragmatism and realism, namely pragmatic realism. Charles Peirce (1839-1914) and Nicholas Rescher (1928-) have done work on this philosophy of science and it is from their work this thesis is inspired.

Peirce, as an alternative to the method of induction and deduction, introduced abduction as a mode of inference. This method systematically goes back and forth between analysis and the data empirically gathered in order to solve a problem. To him that was what pragmatism was all about, reconciling knowing and doing as a method (Campbell 2011). Whereas Pierce argued that mind-independent reality surely could exist, Rescher found reason to believe an even more realistic view of pragmatism. He argued, as Pierce, that there exists an external reality, but that our abilities to grasp and understand it is limited by our natural abilities (Bechara og Ven 2007). With a philosophy of science that is pragmatic realist we are able to provide models of the objective reality despite our fallibility as researchers.

With this choice of philosophy of science, we acknowledge there is such thing as an objective reality when we explore the phenomena of entrepreneurship and the environment. At the same time, we acknowledge our limitations in making our subjective evaluations of these realities. Naturally that leads us to a pragmatism that is conscious, critical, and reflective of self as we interpret the data and seek to understand the theoretical concepts and ideas (Ormerod 2006).

3.3 Research approach

Since pragmatism is the relationship between knowing and doing, it seemed advantageous to use a research approach which was iterative. This circular method of working helps appreciate theory and concepts, which in turn gives increased depth to both data and analysis. With an iterative research approach, we were given flexibility in our working with theory, as well as data and analysis. Furthermore, it allowed for improving our analytical framework as theoretical and analytical insights were obtained throughout the research process (Dubois og Gadde 2004).

The way this thesis came about was by a common interest in the economic growth of developing countries and an academic interest in entrepreneurship as part of that solution. The literature review allowed us to understand further crucial concepts and theories that brought us increased interest and thereby the problem field was defined. As the research progressed, the significance of the data and greater understanding of the context and theories impacted our final analytical framework. It was as we gained more data and were able to structure our information, this flexibility allowed us to move from the initial analytical idea to what became the final one. It was exactly because we permitted the empirical data to challenge the theoretical concepts, that we gained deeper insights and saw new aspects of existing theories. In contrast to developing new theories, we instead worked to see the worth of those already in place (Dubois og Gadde 2004).

3.4 CASE STUDY RESEARCH

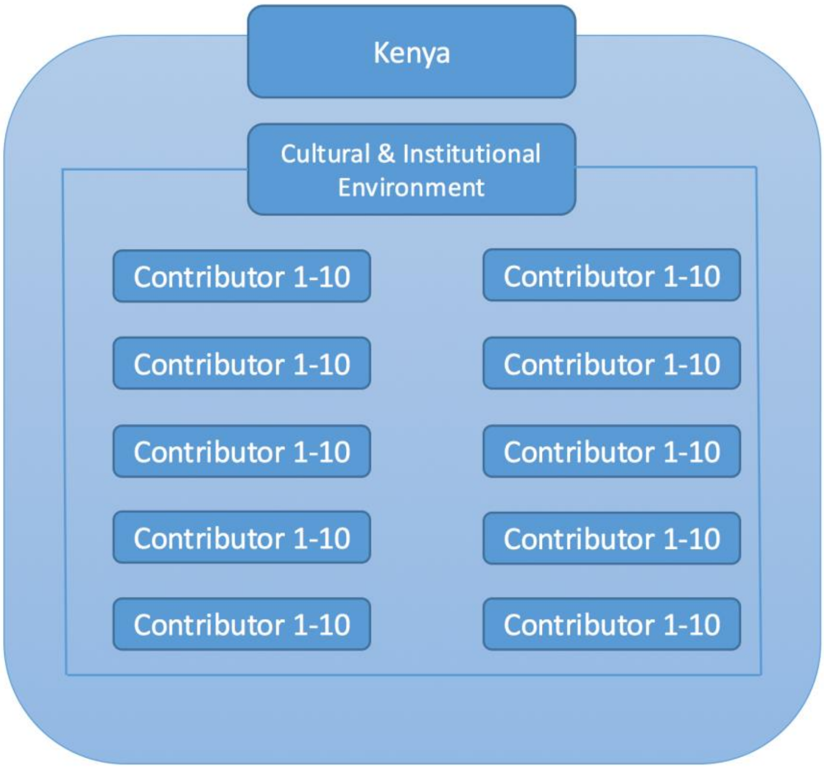
The case study research appeared to be an advantageous tactic when approaching an explorative study with an iterative method. By conducting a case study, it was possible to obtain a deep understanding of the concepts and their interrelationships. We chose this study method to examine a small number of social entities by collecting data from numerous sources and using the iterative research approach to attain a holistic description (Easton 2010). Due to the need for flexibility the case study was advantageous for us.

The nature of a case study is qualitative and is conducted by the use of interviews, which aligns with the philosophy of pragmatism. It is intensive, in contrast to extensive, in its research method as it studies social entities in context (Easton 2010). Practically this is done by exploring entrepreneurship at firm level or, similarly, the various entrepreneurship experts we got to interview, which together functions as the unit of analysis.

The case in our study is the cultural and institutional environment as it has been theoretically proven to be of great influence to the entrepreneur. Finally, the context of our study is the nation Kenya. These three elements; embedded units of analysis, case, and context, are suggested by Yin (2003) as the the elements, and the order, to educate us on a problem (see figure C).

The context is relevant, according to Yin (2003) and Poulis et. al (2013), because a deep understanding of context is essential to a case study research and should therefore not be disregarded. Inherent in the qualitative approach is the data collection that is not expressed as numbers but primarily in the form of words. Through the qualitative study we can obtain a holistic understanding of the realities that local entrepreneurs face, by the interaction with the actors and interpretation of their actions (Brockington og Sullivan 2003). Due to our choice of a pragmatic philosophy of science, we are led to believe that the case study method, as a method falling under qualitative research, is helpful for our study.

FIGURE C: THE EMBEDDED CASE STUDY METHOD



Source: Based on Yin (2003)

3.5 SETTING: CONDUCTING RESEARCH IN THE FIELD

Conducting research in a field different from one's own comes with several challenges. There are geographical, or what Scheyvens & Storey (2003) call spatial differences. Furthermore, there challenges such as the relationship between the researcher and respondent, language differences, as well as cultural understanding (Jeppesen 2005). The last two are especially relevant when researchers are conducting field research in a different context than one's one. In order to minimize these challenges and address certain issues, we engaged in relevant literature and set out to prepare ourselves for the new context under the given time constraints.

One thing we learned was that in the context of developing countries, one has to acquire relevant knowledge and awareness to be eclectic. Thereby one can maximize the field research efforts (Desai og Potter 2006). That is because the researcher will be in an unfamiliar setting and will have to be more understanding when it comes to cultural and ethical matters. That will, in turn, enable the researcher to be more ready to change the strategy of the research as the research unfolds (Murray og Overton 2003).

We found the Kenyan culture as incredibly inviting and helpful in connecting us with relevant firms and entrepreneurs. People were more than willing to put a good word in for us and it meant that several doors quickly opened for us. Initially we got in contact with a Danish entrepreneur who had established a flower company three hours outside of Nairobi in collaboration with the Investment Fund for Developing Countries (IFU). That contact lead to a company visit with Afriscan at Kangongo by Lake Naivasha and a meeting with the IFU at the Danish Embassy in Nairobi. This was merely the beginning and a similar pattern led us to the innovation hub, iHub, the incubator, The Hub East Africa, the accelerator, Growth Africa, and more. We believe that securing a meeting at the Danish Embassy increased our legitimacy and credibility as serious researchers for the subsequent meetings and interviews, but it also opened doors that we would not have expected to have been opened.

We did not experience what can be perceived as traditional barriers in doing research in developing countries, primarily due to the fact that English, along with Swahili, is one of the two the official languages in Kenya. That lowered both cultural and language barriers, and minimized it to simply having to cope with the Kenyan dialect, which at no point proved to be a challenge. Another consideration was the Danish Ministry of Foreign Affairs' warning of an increased risk of terrorism in Kenya, a risk that was (and still is) assessed to be particularly high in Nairobi and Mombassa. Yet, we decided to travel despite the ministry's warning and we experienced no violence or threats, even as we ventured out into Nairobi's slum, Kiberia. As long as we stayed out of certain areas of the inner city of Nairobi at night, we generally felt safe.

Our field trip lasted two weeks, from February to March 2016, and we experienced to dive into the culture by living with locals and staying both in the city of Nairobi and in the remote village of Migori in Northern Kenya. That helped us understand the diversities of the nation and how different Nairobi is from the rest of country. We were able to gather a relatively large amount of data from our in-depth interviews.

3.6 RESEARCH CONTRIBUTORS

As mentioned above, the Kenyan culture enabled us to quickly get in contact with a large number of companies and entrepreneurs, which was very helpful in the process of broadening our network. We met both at company sites and manufacturing plants, as well as at innovation hubs, incubators, accelerators, and at more casual locations such as restaurants and cafés. The contributors to our study were chosen based on our interest in getting as broad as possible scope of the entrepreneurial landscape. Despite the fact that we decided not to limit ourselves to one specific industry, we had a clear idea of the kind of information we wanted. Our sampling method can be described as purposeful sampling, which is decisively seeking out what you are wanting to study and where it has the greatest likelihood to occur (Denzin og Lincoln 2005).

Our criteria were that, firstly, the contributors needed to be themselves an entrepreneur or experts on starting and running a business in a developing country, secondly, that the contributor was either the founder, the CEO, or the general manager who was experiencing the entrepreneurial barriers “on the ground”. At the same time, we were very interested in getting contributions from respondents ranging from newly started ventures to firms with several years in existence. By following this method of checking eligible criteria, we are following the method outlined by Esterby-Smith et al. (2008).

In our attempts to further contextualize and understand the case from more perspectives, we were interested in engaging with more government institutions. Unfortunately, it proved to be difficult to secure any interviews or set up any kind of meetings, despite we had reached out to numerous governmental agents such as Netfund, ICDC, the Vision 2030 Office, and the ICT Authority. Albeit no collaboration with government institutions, our interaction with the IFU and the various incubators and accelerators, enabled us to take a step back on contextualize our research. A perspective that could have proven hard to get if we only had data from the local entrepreneurs. These experts demonstrated themselves to be more valuable for our research than had we first imagined.

3.7 INTERVIEWING

Each interview was semi-structured (Søderberg 2006), which provided interviewees with an opportunity to develop their own independent thought, while providing relevant information (Denscombe 1998). For the interviewees running their own business, questions were developed around the following themes: 1) background, 2) experience with starting a new business, 3) strength and weaknesses of the Kenyan startup landscape, 4) perception of institutional actors in particular the Kenyan government, 5) cultural impact, and 6) thoughts on the future. By having a question guide outlined beforehand (see appendix B), we ensured that the areas of interest were discussed, but additionally it provided the interviewees with opportunities to bring to the interview their own ideas and thoughts. The purpose of the interview guide was to keep the questions as simple and open as possible.

The interviews were conducted face-to-face, with the majority being held at the respective offices of the respondents, which proved to be an interesting experience into the daily work life of people. All of the interviews began with a short introduction of ourselves and the topic of our project. This also assisted us in setting the direction for the subsequent discussion, ensuring that the interview would suit our purpose. The respondents were all asked whether recording the interview would be inacceptable to them, however, none of them asked for anonymity, which allowed us to record all of our meetings. By being able to record the interviews, we gained a lot of flexibility allowing us to probe for more specific answers, repeating questions, and watch for nonverbal behavior. Referring to the latter, social cues, such as voice, intonation, and body language of the interviewees, gave a lot of extra information, which was beneficiary when discussing topics that were more sensitive. Additionally, we did not have to distract ourselves with taking notes, but could merely focus on asking further questions and leading the interview.

Our qualitative interviews ensured that we were able to get another type of data than what quantitative data allows for. One of the many advantages was that we able get a deeper insight into the cultural environment and beliefs in the nation, along with a more detailed understanding of the impact of the institutional environment (Willis 2006). The semi-structured interviewing style allowed us to understand not only the respondent's viewpoints, but also the worldview explaining the reasons why they were holding that perspective (Esterby-Smith, Thorpe og Jackson 2008).

3.8 SECONDARY DATA

In preparation for the field trip and as groundwork for the interviews, we investigated a large amount of secondary data. We wanted to be able to understand the various experts and thereby be able to take advantage of their knowledge and expertise. That meant, for example, that in preparation for our interview with the accelerator, Growth Africa, we made sure that we understood the organization's development, their industry, their strategy, and their results. We took advantage of country reports, statistical data, government policy documents, and the work of various NGO's, and used this knowledge in addition to our extensive literature review. With a great deal of groundwork in place before our arrival in Kenya, we had secured that we had a basic understanding of the regulative environment and knowledge of the intuitions in place.

3.9 DATA ANALYSIS

Following the gathering of primary data, the next step was to analyze it and bring structure to it, which allowed us to better understand the meaning of the data (Marshall og Rossmann 1994). This step requires that there has been a process of both transcribing the interviews and coding the data first. Transcribing is the process preserving data and coding is the process of providing structure to the data and sorting it into various categories in order to understand the themes and any patterns that might be.

3.9.1 TRANSCRIBING

In conducting interviews, we both recorded and took notes on the computer. This ensured that we captured a large amount of data and provided data that was very detailed and complex. The process of transforming verbal communication into written communication is a transformation that inevitably will not be able to fully represent what actually took place during the interview (Seidman 1998). Consequently, we made sure that we took into account the non-verbal cues, as both sarcasm and laughter can carry a lot of meaning with the spoken word. Our experience with the transcribing process was two-sided. On the one hand, we found it valuable to re-listen to the interviews once more, as we noticed information we had missed the first time and we were reminded of aspects that had slipped our minds since the interview had been conducted. The increased familiarity with the data enabled us to be much more efficiently in coding afterwards. On the other hand, we found it extremely time-consuming to be transcribing interviews of a duration ranging from 20 minutes up to two hours. Initially we thought we had to make summary transcripts, but we found ourselves ending up making full transcripts, except from not noting all non-verbal cues.

TABLE A: CONTRIBUTOR OVERVIEW

Company	Type	Year	Interviewee
Investment Fund for Developing Countries	Investment Fund	1970	- Henrik Frøsig, Regional Director East Africa - Samuel Wathandu, Senior Investment Manager
The Economic Projects Transformational Facility	Accelerator	2004	- Esther Muthoni, CEO
Growth Africa	Accelerator	1998	- Ian Lorenzen, Executive Director & Partner
Hub East Africa	Incubator	2014	- Liesbeth Bakker, CEO
Hub East Africa	Incubator	2014	- Kissinger Karanu, PR & Marketing (previously entrepreneur)
Optimal Wellness	Nutrition	2016	Antony Mutegi, Founder
TBD	Architecture	2016	Daniela Nyakuraya, Founder
Afriscan	Flowers	2013	- Charles Mwangi, General Manager
Frontline SMS	ICT	2005	- Sitati Kiuyi, Senior Software Developer

3.9.2 CODING

After having preserved the data we had gathered, the following step was to engage with the data itself and work to understand what it meant. That is what the process of coding is about (Gibbs 2007). Coding is matching the transcribed data with the theoretical concepts. Specifically, it describes and categorizes the data in view of theory. Yet, it is also possible that the descriptions and categories can be created and driven by the data itself. As we read and re-read the transcripts and our empirical data, we explored new categories in addition to the ones offered by the theory found in the literature review at first. In effect we used the iterative research method in both allowing for concept- and data-driven coding. This process expanded the coding of the thesis and more codes was developed as the analysis progressed and brought new aspects to light. One example is that, initially we were in doubt to what extent the cultural environment was significant, but as we allowed the data to drive areas of the coding, we gained confidence in its importance and therefore included it as a major part of the study.

3.10 Reflexivity

We acknowledge that we as researchers can influence the data. As researchers we have a preconceived understanding of the concepts and theories investigated, and our research is vulnerable to the influence of this, as well as our backgrounds as researchers. Therefore, as we give, what Denzin & Lincoln (2005) call an reflexive account, we as pragmatics understand that we are to be critical, reflective, and conscious of ourselves. That our own ideas cannot be fixed and neither are the concepts and contexts in the social world.

By conducting semi-structured interviews, we were able to counter our influence on the data as researchers. By allowing the contributors to give a more in-depth perspective on what otherwise could be biased by our own preconceived understanding as researchers, we reduced our “blind spots”. This form of interview allows for the interviewees to answer the open-ended questions in a way that gives a richer elaboration of the issues. It gave them the opportunity to direct their answer towards what they perceived as being important and addressed topics that we had not encountered through the literature review. We found this process to be very enriching, as we not only learned about the local entrepreneur’s barriers in detail, but also was our understanding of the theory helped and inspired.

In order to obtain a fuller understanding of the researched, we ensured that we were going back and forth between local entrepreneurs and experts leading organizations, such as incubators and investment funds. We found that to give us a very balanced understanding of the issues, as we could take the various points up brought up by the one perspective, and bring it to the other perspective and get an alternative explanation of the very same issue. This combination of data collection helped us as researchers to quickly gain a solid understanding of the context, and knowledge to what the practitioners found to be most significant.

Ideally we would have had a bigger data collection, including specifically government institutions. As easy it was to set up meetings on the "entrepreneurship side", as hard it proved to be to meet any government officials or government branches. We recognize that our data collection and thereby study is lacking some interesting aspects by not being able to get contributions from the Kenyan government. For future research, we highly recommend to invest in making connections with government branches and offices, in order to get a more balanced data set. This would allow for a broader and more detailed perspective of the government's initiatives and interests in economic growth as driven by entrepreneurs.

3.11 Conclusion

This chapter explained how this thesis is explorative in nature and that in order to use an iterative research approach, it is beneficial to apply a case study design. It described how we have taken a pragmatic realist philosophy of science as the underlying foundation, which we used to guide us in the methods and approaches we utilized. Our considerations with regards to entering a research field in a developing country was outlined and we showed how we identified those to participate and contribute to our study. The chapter also gave emphasis to how the interviews were conducted and how we analyzed the data. With this in place, we now turn to a deeper description of the context of Kenya, which highlights some of the achievements and struggles of the Kenyan economy and specifically with respect to its entrepreneurial environment.

4 Context

Kenya is the largest and most developed economy in Eastern Africa. It is a regional hub for investments and innovation and plays an important role for the regional stability and development. Kenya is the fifth largest economy in Sub-Saharan Africa and the relatively stable macro-economic situation has helped the Kenyan economy grow by an average of 5 percent annually over the last decade, and a medium term growth rate 6-7 percent is anticipated (MFA 2015). Geographically, Kenya is well placed to be the regional hub for financial, air- and sea transport, making the country attractive for investors targeting the entire East African region (see Figure D). Kenya has made notable progress in the past half century; Kenyans are living two decades longer, fertility and infant mortality has been reduced by half, and school enrolment at primary and secondary level has more than doubled. In 2012, Kenya reached the threshold for a lower middle income country and has the potential of becoming a newly industrialized, middle income country by 2030 (MFA 2015).

Figure D: The East African Community and Kenya Country Facts

East African Community	Kenya country facts
	**Region:** Sub-Saharan Africa **Income category**: Lower middle income **Population**: 45,925,301 (est. 2015) **GNI per capita:** (US$): 1,280 **Major Languages**: English (official), Kiswahili (official) **Head of government:** Uhuru Kenyatta **Independence**: Dec. 1963

Table B: The Kenyan GDP 2010-2016

Year	2010	2011	2012	2013	2014	2015
Growth percentages	8.4	6.1	4.6	5.7	5.3	6.0 (est.)
USD billion	40.00	41.95	50.41	54.93	60.94	69.98 (est.)

Source: World Bank

4.1 Economy

From an economic perspective, Kenya falls under the category of a factor-driven economy. Factor-driven economies compete primarily on their factor endowments, especially on unskilled labor and natural resources (GEM 2008). Agriculture remains the backbone of the Kenyan economy, contributing with more than 25 percent of GDP. The country's major exports are tea, coffee, cut flowers, and vegetables, and about 80 percent of Kenya's population of roughly 46 million work at least part-time in the agricultural sector (US Gov. 2016). Over 75 percent of agricultural output is from small-scale, rain-fed farming or livestock production (CIA 2016). However, inadequate infrastructure threatens Kenya's long-term position as the largest East African economy, and even today, international financial lenders and donors remain important to Kenya's economic growth and development (CIA 2016). Although Kenya's reliance on development assistance is limited (around 10 percent of the state budget), in certain sectors, such as health, the level of reliance is as high as 50 percent. The largest development partners are the United States of America, the World Bank/International Development Association, the International Monetary Fund, Japan, the African Development Bank, the United Kingdom, Germany, France, the European Union, Sweden and Denmark (MFA 2015). Another obstacle for the agricultural sector is limited access to banking loans. Although there is good evidence of the financial sector improving in Kenya, the development of the financial sector in the country does not seem to have spread across all economic sectors. While the agriculture sector contributes 25 percent to GDP and employs over 80 of the rural population, commercial credit to agriculture remains low, with commercial-bank credit to this sector averaging approximately 5 percent in the five years leading to 2013 (Odero et al. 2015).

4.2 Challenges

Despite significant progress in recent years, Kenya is still characterized by "high growth, but not for all". Four in ten Kenyans continue to live in poverty, which is mainly due to high levels of inequality, as Kenya remains the most unequal in the East African community. Among other challenges are political uncertainty, widespread corruption, infrastructural deficits, youth unemployment, and an untapped informal sector. These will briefly be discussed below:

4.2.1 Political uncertainty

Over the years, Kenya's economic growth has been hampered by unstable political regimes, with corrupt leaders having abused their power to strengthen their economic interests (BTI 2016). A study found that political instability heavily discourages physical capital accumulation and investment (Business Daily Africa 2010). Moreover, it was revealed that most executives actually rank political risk ahead of competition from rivals, poor infrastructure and cheap imports as the biggest hurdle to businesses achieving their full potential, arguing that political stability in any country is the key factor that an investor looks into when deciding whether to invest.

Kenya witnessed a political crisis in 2008, when violence erupted following the disputed national elections held in December 2007 (Kenya Economic Update 2015). The elections were regarded as an ethno-political violent struggle, with riots largely divided along tribal lines and it resulted in homes and businesses all over the country being razed to the ground. By the time a peace agreement was finally signed, on February 2008, some 1,200 people had been killed and 500,000 more had been displaced (Dupas & Robinson 2010). A study by P. Dupas and J. Robinson, 2010, revealed the microeconomic impacts of the political crisis and civil conflict that immediately followed the December 2007 presidential election in Kenya. Income, expenditures, and consumption dramatically declined for a broad segment of the rural population for the duration of the conflict. For small vendors, average weekly incomes fell from 726 KES in the pre-crisis period (November 2007) to less than 500 KES throughout January 2008. Shop owners, whose businesses are much larger, experienced an even larger drop, with average weekly income falling from 5,100 KES to between 2,100 and 3,400 KES over the same period. Needless to say that episodes like this, even if short-lived, may have long-term consequences on a variety of important outcomes. The fundamental concern is that such crises tend to drastically reduce individual income during (and sometimes after) the period of unrest, and many individuals are unable to cope with this income reduction except by engaging in activities which are detrimental to their long-term well-being. These responses will be particularly large in poor countries like Kenya, where formal means of coping with risk (such as insurance or savings accounts) are largely absent, and where the marginal utility of consumption is very high, so that households are forced to take costly actions to maintain consumption (Dupas & Robinson 2011). Political uncertainty, especially around elections, and its associated volatility is arguably the main limitation on sustained private sector investment and growth within Kenya (ADB 2013).

4.2.2 Corruption

Widespread corruption continues to hamper Kenya's development with the country ranking 145th out of 175 in the 2014 Transparency International Corruption Perception Index, dropping nine places between 2013 and 2014 (EABI 2014). Worrying signs are that sectors receiving considerable attention as part of the reform process since 2010, such as the National Police Service, Ministry of Lands and the Judiciary, are among the sectors worst affected by corruption, according to the East African Bribery index (MFA 2015). Just recently, the country's auditor general revealed that merely one percent of the Kenyan government spending was "incurred lawfully and in an effective way," with about a quarter of Kenya's $16 billion state budget missing altogether (IBT 2015). Examples of some of the more outrageous expenses in government offices are paying $11,650 as consulting fee for opening and maintaining the county government's Facebook account while another county purchased 10 wheelbarrows at $1,050 each (Forbes 2015).

Bribery, private payments to public and/or private officials to influence decision-making, is the most prevalent manifestation of corruption in Kenya. It is estimated that the average urban Kenyan pays 16 bribes to both public and private institutions in a month (TI 2014). In continuation, a stunning 67 percent of the respondents' interaction with public institutions, about two out of three, involve bribes or costly negative consequences if one declines to bribe. Public servants, that is, employees of central government ministries, local authorities and state corporations are by far the most bribed, accounting for 99 percent of the bribery transactions. This is imposing a direct financial cost, like an additional tax burden, of just under 8,000 KES per respondent per month (TI 2014). When examining the reasons for paying the bribes, 38 percent state that it was the only way to get the service, 31 percent did so as a means to speed up the service, and 17 percent in order to avoid problems with the authorities (EABI 2014).

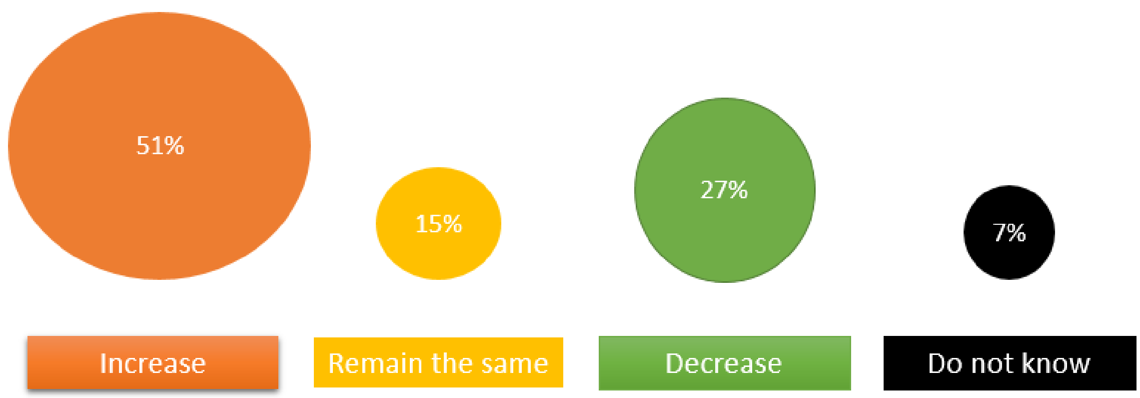
TABLE C: LIKELIHOOD OF ENCOUNTERING BRIBERY

Function	Percentage
Mombasa Municipal Council	91.6
Kenya Police	90.4
Prisons Department	90.4
Ministry of Lands	86.7

Source: Transparency International, Urban Bribery 2014

According to figure E the likelihood of obtaining satisfactory service from these institutions without paying a bribe is less than 10 percent. In other words, only one out of 10 people who regularly deal with the organizations obtains satisfactory service without paying a bribe. Bribing police officers is the most rampant practice. The attitudes towards the future state of corruption within Kenya reveals a similar dark pattern with 51 percent believing corruption will increase and a mere 27 percent believing it will actually improve (TI 2014).

FIGURE E: ATTITUDES TOWARDS THE FUTURE STATE OF CORRUPTION



Source: Transparency International 2014

4.2.3 INFRASTRUCTURE DEFICIT

The inadequate and poorly performing infrastructure is a major challenge to Kenya's economic development and growth, and constitutes a major impediment to achieving continuous growth. The country's infrastructure needs are significant and current infrastructure investment levels are far below those required (Hope 2010). The World Bank estimates that Kenya has an infrastructural funding gap of approximately $2 to 3 billion per year, in order to address infrastructure requirements for the next 10 years (Business USA, 2014). Evidence suggests that infrastructure constraints are responsible for about 30 percent of the productivity handicap faced by Kenyan firms, with the remainder being caused by poor governance, red tape, and financing constraints (Ondiege et al. 2013).

Lacking power supply is the infrastructure constraint that weighs most heavily on Kenyan firms, with transport a close second (ACID 2010). Kenyan homes and industries experience more than 600 hours of outages per annum. The frequent and lengthy power outages in Kenya are now more than just an annoyance, and businesses (formal and informal), government offices, private residences and all others who can afford it have had to invest in generators as a fundamental necessity of daily functioning. It has been estimated that the burden of power outages on the economy is as high as 2 percent of GDP (Hope 2010). A massive 1,000 megawatts of generating plants are needed over the next decade. This is a doubling of current capacity and underlines the urgency of Kenya's infrastructural deficit (World Bank 2011).

Additionally, Kenya's infrastructure networks are largely isolated from those of its neighboring countries. While there are some transport links with Uganda and Sudan, the road connections with Ethiopia, Tanzania, and Somalia are of very low quality. Road investments have been characterized by low rates of budget allocation (only about 60 percent of the 2006 budget was spent), cost overruns of as much as 80 percent over engineering estimates, and lengthy delays that tend to double the implementation period (ACID 2010).

4.2.4 Youth Unemployment & Informal Sector

The Kenyan labor market is one characterized by inadequate employment opportunities against a large and growing population of unemployed people. The youth population presents a small formal sector alongside a large informal sector. The youth (15 – 34 year olds), who form 35 percent of the Kenyan population, have the highest unemployment rate of 67 percent (Kenya Country Report 2014). The youth faces many challenges while seeking for employment including few available employment opportunities against a fast growing pool of employment seekers. With some 800,000 young Kenyans reaching working age each year, and only 50,000 new modern wage jobs being created, this trend contributes to a high level of unemployment as well as the large proportion of individuals being employed in Kenya's informal sector (Robb et al. 2014). For many, necessity-driven entrepreneurship in the informal sector is an option of last resort, and despite having the potential to grow their enterprises, the lack of formalization poses a severe constraint. The lack of formalizations results in limited access to markets, inadequate skills and technology, poor product quality, inadequate business skills, limited access to information, and the lack of an institutional framework (BTI 2016). Even though the informal sector is an opportunity for generating reasonable incomes for many people, as also acknowledged by the Kenyan government, most informal workers are without secure income, un-employments benefits and social protection (Robb et al. 2014). The share of the informal economy is slightly more than 80 per cent and is growing relatively fast. In the formal sector (both public and private), employment stood at about 17 percent in 2013. Consequently, an important feature of employment in Kenya is the creation of low quality jobs relative to the growth in the labor force, leading to unemployment and underemployment while informal sector employment continues to expand more rapidly (KIPPRA 2014).

4.2.5 Poverty and Inequality

The gap between the rich and the poor in Kenya is one of the highest in Africa. In a recent World Bank report titled "Poverty in a Rising Africa", findings suggest that 62 percent of Kenya's national wealth is controlled by less than 10,000 persons (Beegle et. al. 2016). Inequalities in Kenya take diverse forms. There are huge disparities in national share of income, security, employment, levels of investment, health care, and public services. Disparities in life expectancy between regions are extremely diverse. For instance, the population of the central provinces can have an expected life duration that is 16 years longer than that of the Nyanza province population and doctor-patient ratio is about 1:20,700 in central province compared with 1:120,000 in North Eastern Province. Furthermore, close to 93 percent of women in the latter have no education at all, compared with only about 3 percent in the former (Mulongo 2013). Educational inequality between the ‘haves’ and ‘have-nots’ in Kenya is overwhelming, and according to the Development Policy Management Forum, this is one of the major drivers of social inequality in Kenya. For instance, almost 100 percent of children in central province attend primary school compared to about 34 percent in the northeastern part and the same children, mostly from rural areas, are more likely to drop out of school than their urban counterparts (Mulongo 2013).

Another emerging debate is on poverty and income distribution. An estimated four in ten Kenyans live below the poverty line, and inequalities across the country and population groups remain high (Robb et al. 2014)). However, in rural areas, which account for 75 percent of the total population, poverty levels is as high as 55 percent. As if that was not enough, surveys over varied periods of time have found that 30 percent to 40 percent of live in rural areas and actually manage to escape from poverty fall right back into it (ODI 2015). According to the Economist (2013), a 1 percent increase in incomes in the most unequal countries produces a mere 0.6 percent reduction in poverty. In the most equal countries, the same 1 percent growth yields a 4.3 percent reduction in poverty. Poverty and inequality are thus part of the same problem, and there is a strong case to be made for both economic growth and redistributive policies. From this perspective, Kenya's quest in Vision 2030 (explained below) to grow by 10 percent per annum must also ensure that inequality is reduced along the way and all people benefit equitably from development initiatives and resources allocated.

4.2.6 New Constitution and Vision 2030

To address these challenges Kenya has introduced major reforms that provide real opportunities for democratic, economic and social change. The 2007-2008 post-election crisis was followed by a genuine participatory process that resulted in a long term development plan for Kenya, the Vision 2030, and in the new 2010 Constitution, which establishes a separation of the executive, legislative and judicial powers (MFA 2015). The new 2010 Kenyan Constitution devolved significant powers from the central government to 47 newly created county governments. The very ambitious devolution reform provides the potential to bring decision-making closer to the people. A new Bill of Rights establishes citizens' rights on political, social, and economic issues, as well as the right to hold government accountable. The bill specifically underlines freedoms and equal opportunity for all—including women, who had previously experienced diminished legal status. Additionally, the country is now improving access to social service, such as education and healthcare, for both urban and rural populations, as a way of combating inequality.

Nonetheless, the exact division of responsibilities between the national government and the counties is still unclear and is only outlined in broad strokes in the constitution, leading to uncertainty about which level of government to approach for regulation. Devolution has also expanded the number of organizations with regulatory power, opening the door to inconsistent regulations and enforcement in different counties and correspondingly complex compliance requirements. This included unnecessary duplication in many areas, as county governments hired staff with similar skills to those found in the national government (GIIN 2015).

Kenya's Vision 2030 is the country's new development blueprint covering the period 2008 to 2030. It aims to transform Kenya into a newly industrializing, middle-income country providing high quality life to all its citizens by the year 2030 (Kenya Vision – Popular Version 2007). The vision is built upon three pillars – economic (GDP growth of 10 percent per annum), social (equity and security), political (democratic political system). The necessary foundations needed to accomplish the Vision 2030 include, among others, continuity in governance reforms, enhanced equity and wealth creation opportunities for the poor, infrastructure, energy, human resources development and security. The vision thus deals with many of the aforementioned challenges, and acknowledges the importance of such.

4.3 Kenya's Entrepreneurial Environment

Africa, and Kenya in particular, has become a center for innovation and entrepreneurship. Over the past 10 years, Kenya has made a stunning innovation journey in which the country's youth have played an important role (GII 2015). The beginning of international reporting about Africa as a location of technological innovations can be dated back to 2007. At that time the Kenyan mobile operator Safaricom introduced the M-Pesa service (mobile money) in a partnership with Vodafone. M-Pesa have become a national infrastructure for financial transactions, making Kenya the world leader in mobile money (Manske 2014). With the success of M-Pesa, Kenya advanced to the position of a global pioneer and international point of reference for mobile payment systems. For the first time Kenya was associated with technology-driven innovation. Today, Kenya is becoming a leader in ICT innovations in Africa (GII 2015). Many youths have sought to duplicate the success of mobile money products and platforms, which have attracted multinational corporations to Kenya.

Innovations, especially in the agricultural sector, have also led to greater productivity and contributed to the country's growth. For example, applications such as iCow (an agricultural information service) and M-Farm (a market information service) have greatly improved productivity in the livestock and agricultural sectors, respectively (GII 2015). Kenya climbed up the rankings in the Global Innovation Index (GII), rising from 99th position in 2013 to 85th in 2014. The GII ranks measures of innovation on the basis of 84 indicators and in 2014 Kenya ranked number one among the 17 low-income Sub-Saharan economies. Kenya's dynamic entrepreneurial ecosystem and increasing number of innovative tech startups have contributed to its global reputation as “Silicon Savannah”, and according to Kenya ICT Authority, the ICT sector is set to contribute up to 8 percent to the GDP in 2017 (Mutegi 2015).

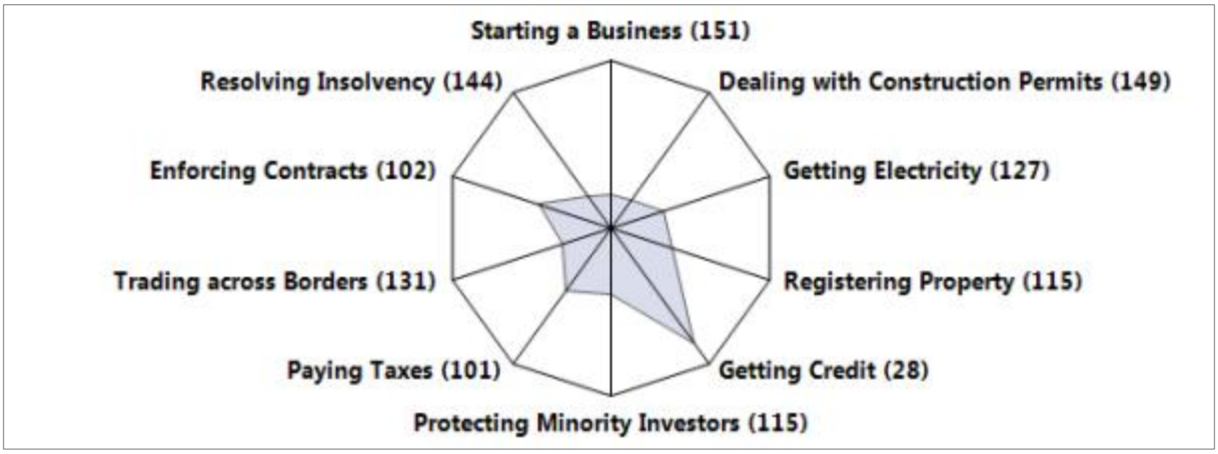
Nairobi is currently the center of attention in the East African Community. Being that the city is almost on the same time zone as Europe, has an English speaking population, and easily reachable by major airline companies overnight, the city is hosting an incredible number of start-ups and tech entrepreneurs (Lorenzen 2016). The city of Nairobi does not have a long history in the tech market. As recently as 2002, Nairobi was exporting a paltry $16 million in technology-related services. Within ten years, however, tech-related services had exploded into a $360-million-dollar industry (Economist 2012). With an evolved support ecosystem that offers a variety of financial and non-financial services, Kenya also leads the region in support services to startups, having the highest number of incubators in the East African region. Kenya holds a diversity of business and investment advisors, co-working spaces and enterprise networks (DGGF 2015). In Kenya, among the many entrepreneurial programs identified, nearly half are classified as entrepreneurship training programs targeting potential entrepreneurs (World Bank Group 2014). This reflects the need of employment creation in the Kenyan economy, where pervasive and growing youth unemployment is commonly perceived to be a major factor in the country’s security problems and political instability. This, coupled with the slow job growth of recent years, has motivated the government to invest in large-scale training programs aimed at supporting youth and the unemployed to venture into self-employment (Robb et al. 2014).

The most recent report by the World Bank, which examines the ease of doing business in a nation, ranks Kenya at position 108th out of 189th countries globally compared to a position of 136th last year, making it the third most improved economy (World bank 2016). The World Bank officials said the creation of Huduma Centres[1], which have brought different government services in one place, largely drove the country’s performance. Among other initiatives are reforms in business and property registration, electricity connections and access to credit, which have made starting and running a business in Kenya easier (World Bank 2016). According to the World Bank’s Ease of Doing Business rankings, it is one of the easier places to do business

[1] A"one-stop shop" to access and pay for government services electronically in order to cut corruption and bureaucracy.

in East Africa, ranking 4th of the 11 countries in the region, and 12th in Sub-Saharan Africa overall (GIIN 2015).

FIGURE F: EASE OF DOING BUSINESS



Scale: Rank 189 center, Rank 1 outer edge. Source: World Bank Report 2016

By and large, Kenyan entrepreneurs do indicate that they have witnessed notable improvements in the business climate over the last 10 years, due to the government's efforts focused on improving the legal system, decreasing corruption and red tape, promoting recognition of the importance of the private sector and reducing or eliminating minimum-capital requirements. Additionally, Kenya's National ICT Master Plan introduced in April 2014, has played a vital role in developing a strategy to comprehensively deploy digital infrastructure, notably wireless and broadband Internet, throughout Kenya and to complement that availability of infrastructure with demand for it generated by popular applications such as mobile money and mobile government services. One result is that 93 percent of Kenyans are mobile phone users and 73 percent are mobile money customers (GII 2015). However, entrepreneurs indicate that corruption, prohibitively high taxes, and harassment by local government officers remain endemic. Further, crime and insecurity remain a concern, most notably for entrepreneurs with micro- and informal enterprises (Robb et al. 2014).

5 Analysis

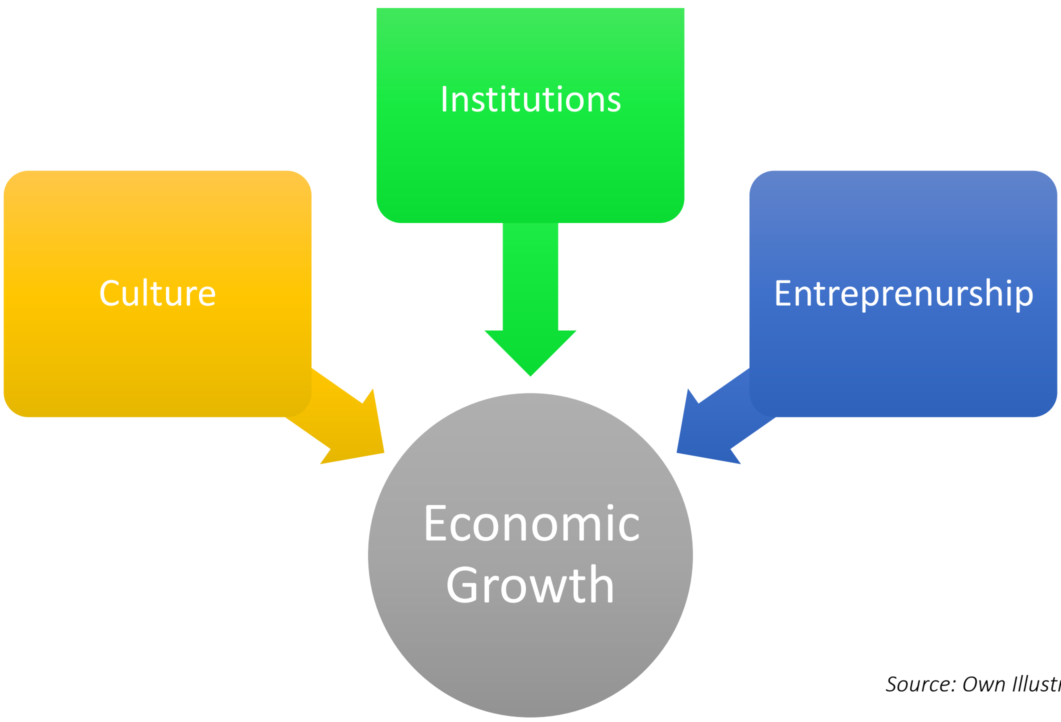
5.1 Analytical framework

Based on the literature review, we have developed an analytical model that works as our framework for our qualitative study of cultural and institutional environment (see figure G). Our qualitative data we will be the primary foundation for our analysis of the Kenyan and Sub-Saharan culture. This analysis will highlight to what extent the culture is conducive to entrepreneurial success.

Based on Landes' and Grudem & Asmus' approach, we will scrutinize the institutions and see how they are influenced by culture. The Index of Economic Freedom (IEF) along with several other reports will function as our guideline as we examine the institutions of the country. These statistics will be coupled with the data we have collected from local entrepreneurs in Kenya, to see, if what the reports indicate and what the local entrepreneurs experience, actually matches. At the same time, we want to see whether the local entrepreneurs agree with the reports on what issues are the most important for their success.

As we were conducting our field research, we were most interested in understanding the problems that the entrepreneurs themselves encounter. Therefore, we were trying to access

FIGURE G: GRAPHICAL ILLUSTRATION OF THE ANALYTICAL FRAMEWORK



Source: Own Illustration

the relevant local knowledge that would allow us to understand that most accurately. This data would allow us to capture the barriers to entrepreneurship that the reports and statistics are not able to capture. To truly understand the entrepreneurs' frustrations and the sources to those frustrations, we had to acquire a comprehensive understanding of the local entrepreneurs' experience with the cultural and institutional environment.

5.2 CULTURE

According to the Global Entrepreneurship Index (2015), a culture that values entrepreneurship is necessary for entrepreneurship to exist. The index describes 14 pillars of entrepreneurship, divided into three components. One of them is the population's attitudes toward entrepreneurship, which measures the population's general feelings about entrepreneurship as a career and whether entrepreneurs achieve a high status in the society. The index finds Kenya to score very low on cultural support for entrepreneurship. That means that the Kenyans have a low view of entrepreneurship in terms of the status it brings and as a career choice. When the cultural support is lacking, even the best and brightest will prefer a traditional profession, rather than risking their resources and status in the society to exploit a discovered profit opportunity. Furthermore, whenever a country has a high score on the Global Entrepreneurship Index (2015) it always follows that the country has a high economic freedom as well.

Consequently, we now turn to the analysis of the cultural values and beliefs of the Kenyan people in order to evaluate the cultural environment. The analysis serves to highlight whether the incentives for people wanting to become entrepreneurs are in place. After the analysis we will have a solid understanding of the cultural environment, which in turn affects the institutional environment, ultimately determining the prospects for national economic growth.

5.2.1 BELIEFS ABOUT MORAL STANDARDS

5.2.1.1 Truthfulness

One area we experienced to be particularly challenging for entrepreneurs in Kenya was online retailing. As it is with most areas of the Kenyan nation, it is lacking behind the Western world when it comes to the adaptability of buying and selling goods and services online. On top of that, as discussed in the institutional analysis, there is a significant problem with very few addresses being exact. Even though the technology is there, most people have a phone or a smartphone and many have internet access, few people trust retailers enough to be buying products online. Therefore, it becomes a significant challenge for entrepreneurs who have seen the unprecedented success of companies like Amazon and are wanting to bring a similar service to Kenya.

Sitati Kiuyi (2016) explained that building trust in online shopping will take a significant amount of time. Yet, entrepreneurs are putting in an admirable effort to make their company and services worthy of the customer’s trust. Other than helping people making their home easy to find and identify, they are letting people, for example, try on the shoes before they decide whether or not to buy them them. If they decide not to, the delivery agent will take them return at no extra cost. Furthermore, instead of having people pay in advance with credit cards, they are allowing for people to pay in cash or through mobile banking upon delivery. All of that is a service they provide for free in order to build trust in the business transactions and show the honesty of their company.

These are attempts to overcome the people’s lack of trust in their own countrymen. They are used to people cutting corners and not being completely true to their word. We learned that there is a high emphasis on due diligence when foreign companies are to invest, simply because the trust is very low. This leads to higher costs in the form of hired experts and advisors. We were told that it was normal practice for foreigners to hire locals to represent them when they were to do business with the locals. This was to avoid being taken advantage of, by for example being sold low quality quality goods at a higher cost or cheated in other ways (Frøsig 2016).

5.2.1.2 Private property

We have seen several examples of the disregard and disrespect for private property on multiple occasions. One that stood out was how people will attempt to sell the same piece of land to multiple people – land that the seller does not even own in the first place. That is why many plots of land have a sign saying: “This land is not for sale”, Henrik Frøsig (2016) informed us. As an extension of that reality, it was impossible not to be startled over the number of security guards who had to be employed protect anything from embassies, hotels, and shopping malls.

The need for guards comes from several sources of threat to private property, one being tribal conflicts. Tribes are not just stealing from each other, but are outright killing one another. These conflicts are prevalent on the countryside where all business projects need to be heavily protected by guards (Frøsig 2016). In Nairobi, on the other hand, guards are protecting against the terrorist group, Al-Shabaab from Somalia, but also against crime and theft. Crime and theft is such a prevalent issue that he Global Competitiveness Report (World Economic Forum 2015) informs that it is perceived as being more harmful for the Kenyan entrepreneurs in doing business than is political instability.

Another harmful cultural belief is what Esther Muthoni (2016) told us, regarding bank loans that "there is (…) a culture of people not paying back". The consequence we see is that it makes the honorable entrepreneurs unable to take a loan because the interest rate skyrockets. Even though the national bank interest rate is 12 percent, Frøsig (2016) told us that no one should expect to be able to get a loan for less than 20 percent. The eight percent going from 12 to 20 percent is for the banks to safeguard themselves against uncollectable loans. Such a high interest rate is hurting entrepreneurs and this destructive environment is a consequence of a culture that does not value private property.

5.2.2 Beliefs about human nature

Again and again we would hear stories about individuals who had been able to break out of a poverty stricken town, had performed well at school, gone to Nairobi, and been successful in creating value for the country by either starting a company or getting a value-creating job. Instead of celebrating the fact that their hard work had rewarded them, these successful people would have to act like nothing had changed for them. When going home to visit family and friends, they would pack a bag of old clothes and drive their car up to 20 km from their old town, where they would change into the old clothes. Then they could get on the bus and return to their old community, appearing like nothing had changed. If they would not do so, they would be taken advantage of or at the least disliked (Karanu 2016). This is a society that does not believe that people should benefit from their hard work.

Muthoni (2016) described to us that if people start becoming successful, others will try to bring them down. No one can stick out – everyone has to be at the same level. This prevailing belief system hinders the country from growing economically, because it is a big deterrent to business. One entrepreneur was making $100 a day but kept his business a secret from his parents, because otherwise they would want some of the money. Sound economical behavior and productive work is simply not valued enough to be economically rewarded, but should be shared amongst those who do not have as much – even if they have not done or risked anything to earn it. Ian Lorenzen (2016) also told us that successes are not being brought to the light and that, “success stories should be more emphasized “. This is a very hostile cultural environment for entrepreneurs.

5.2.3 Beliefs about time and change

Another of the entrepreneurship pillars identified by the Global Entrepreneurship Index (2015), risk acceptance, links very well with cultural support. In Kenya there is a high percentage of the population that perceives going bankrupt with their business venture to be a great shame. The risk acceptance in the country is very low and this high-risk aversion retards entrepreneurship in the country. This is seen in how it is still believed by the previous generations that the young should go into stable and predictable industries such as farming, said one of the young entrepreneurs of Hub East Africa, Antony Mutegi (2016). Lorenzen (2016) told us that “all parents would advise (their) kids not to be an entrepreneur”. We observe the culture to generally prefer the old over the new and safety over risk.

That is also seen in how Kenyans perceive bankruptcy. The tolerance for failing a business is low and that is exemplified by entrepreneurs not letting their businesses fail. As Lorenzen (2016) said, “Kenyans will hold on to their business until they are nearly suffocating”. The country has not yet seen the great entrepreneurial successes and if anyone dares to venture into starting a business, everyone will be expecting them to fail. The lack of acceptance of letting people try and fail hinders entrepreneurs in being willing to take the necessary risks.

5.2.4 Beliefs about work and economic productivity

The Global Competitiveness Report (2015) tells us that poor work ethic in the labor force is a greater problem than the lack of academic sufficiency. The entrepreneurs told us that they had identified a tendency in culture to “never put any effort into things” and that Kenyans were looking to “make quick money” (Nyakuraya 2016). It could most likely be argued that most people, no matter where in the world, would like to “make quick money”, but Lorenzen and others identified additional trends. Growth Africa did a survey amongst entrepreneurs and found that they were not interested in scaling their business when they first had achieved some level of financial success. Instead of reinvesting their profits back into the business, they would settle and establish a better life. They would get a better car, a bigger house, and so on.

We learned from Muthoni that Kenyan business people are coming together with the savings that they have, in order to be able to reach greater loans from the banks. Yet, generally we experienced that people have a worldview where savings are not part of it. The Kenyans tend to think short term, which can be exemplified in Frøsig's (2016) portrayal of a typical, Kenyan farmer. The typical farmer will sell the nice tomatoes and plant the bad ones. When he does that every time, he will end up having fewer and fewer good tomatoes, and eventually end up only having bad ones. It would not take much to change the quality of the procedure, but it takes quite a bit of work to change that worldview.

5.2.5 Beliefs about government

Government is behind the lack of regulative transparency and accountability. Since corruption, like entrepreneurship, is omnipresent in all people, it has to be discouraged as entrepreneurship has to be encouraged. If not, it will take advantage of the weak institutional environment. The lack of clarity and transparency is a lack of understanding the role and responsibility of the government. The Kenyan government is not sufficiently discouraging the incentives to be corrupt and to take advantage of the authority given to you as a government official. Ultimately, it comes from a cultural belief that government does not exist for the people but to benefit those in power. As Kiuyi (2016) said, "the officials are not thinking of what is best for the people, but what is best for their pocket".

Our findings show that corruption is accepted at all levels of the society. It is a common and accepted practice for people in power and for those subject to that power. Repeatedly we heard from our interviewees that it is "part of doing business" in Kenya. Daniela Nyakuraya, working out of the Hub East Africa, admitted that she bribes a lot. As she works in the architectural industry, she is working with the Building Authority, who can be very particular on the tiniest details if they do not receive bribes. If she did not bribe, they would stop her at every chance they got. Getting approvals without bribing can take as much as six months to a year. She simply makes more money by bribing rather than following the formal rules.

The entrepreneurs generally admitted that people do not speak out against corruption until it starts to become a disadvantages to them. Kenyans accept corruption because it benefits them and that goes for all levels of society. “Corruption is part of life and Kenyans have become good at working with it, and know how to work around it”, said Lorenzen from Growth Africa (2016). It is not perceived as bad behavior. A local investment manager, Samuel Wathondu, proudly told us that, “if you’re corrupt, you get things done in Kenya”, and scornfully stated that if you bribe officials in Uganda or Tanzania it does not benefit you - still nothing happens (2016).

Kiuyi explains how the culture has accepted corruption entirely: “It is very easy to be pointing at the government, but culturally there is a major problem too. People just go along with it. It should be something people are completely against, but people do accept it and go along with it. It is a part of the Kenyan identity. People are outraged at the government, but they all take part of the bribery themselves. At the end of the day the laws are one thing, but the actions of the people and their culture is another thing” (2016).

Muthoni told us that, “corruption is so ingrained in the culture, that when people are stopped (red. driving their car) they don’t even listen to what the police officer says, but hands him a bribe before he gets to say anything just in order to get away quickly. It’s not just corrupt police, but the general population” (2016). Since the Kenyan population to a high extent believes, actively or passively, that those in government positions can exploit their power to their own benefit, it causes a cultural environment that tolerates and accepts widespread corruption. Such a culture is hostile to entrepreneurs as they can have no faith in that the government will protect their private property or not unlawfully interfere as they try to exploit opportunities they have discovered.

5.2.6 Culture summary

The cultural barriers to entrepreneurship seem best illustrated by the lack of cultural acceptance of entrepreneurship. Successes are not celebrated or allowed to be rewarded, and failure is expected when people undertake risks and pursue entrepreneurial ventures. The cultural shame attached to failing in one’s business results in entrepreneurs “hanging on” to their business and not allowing it to go bankrupt, even though it is no longer a viable business.

Additionally, the lack of respect of private property and the high level of crime and theft, ruins a stable, predictable environment needed for entrepreneurial activity. When the Kenyans have success it is expected that they will take care of friends and relatives, instead of inspiring others to follow them and imitate their success. Therefore, we conclude, that there are at least five overall beliefs in the Kenyan culture that are harmful for entrepreneurs in attempting to better their own position and through that contributing to the national economic growth.

5.3 INSTITUTIONS

After having analyzed and assessed the cultural environment of Kenya, we have been able to point out the greatest cultural hindrances for the Kenyan entrepreneurs. We now turn to do a similar exercise with the institutional environment. The analysis is founded in the literature review and will be analyzed based on our field research data and statistical reports. Following reports have been used for the analysis due to its rich statistical data:

1) 2016 Index of Economic Freedom, *Heritage Foundation.*
2) Doing Business 2016, the *World Bank.*
3) The Global Competitiveness Report 2015-2016, *World Economic Forum.*
4) Global Entrepreneurship Index 2016, *Global Entrepreneurship and Development Institute.*
5) The Global Innovation Index 2015, *Cornell University; INSEAD;* and *WIPO.*

5.3.1 RULE OF LAW

The findings of our field research indicate that corrupt governance dominates the institutional environment. This is most clearly seen in how government excessively interferes with the activities of individual entrepreneurs. The formal "rules of the game" are barriers for entrepreneurs engaging in productive entrepreneurship. That is one of the main causes for the poor economic performance of Kenya. The informal procedures are a consequence of the weak rule of law in Kenya. There is a widespread existence of arbitrary taxations, corruption, and deficient governance. As a result, the formal rules of the game are undermined and the legitimate efforts to ensure quality institutions are hindered. The reality is that the incentives to follow the informal rules are greater than to follow the formal rules, leading to more unproductive rather than productive entrepreneurship in the institutional framework.

5.3.1.1 Property rights

The rule of law is weak and uneven throughout Kenya, and therefore remains one of the great challenges for the nation to sustain economic growth in the long term (Cornell University; INSEAD & WIPO 2015). Property rights are poor and inadequately protected by the government. CEO of EPTF, Esther Muthoni, said that the government still has a long way to fix the problems with property rights, and argued that they are not being appropriately protected nor enforced. Still another institutional weakness of Kenya is the poor protection of intellectual property (World Economic Forum 2015). The lack of protection of property rights take away the incentive from the Kenyan entrepreneurs to discover profit opportunities, because they cannot have confidence that they can keep their income, savings, and property.

Kenya has not been able to strengthen their property rights over the past 8 years and is consequently ranked 92 in the world on the issue of property rights (Heritage Foundation 2016). According to Lorenzen (2016), it is not atypical for a property to be "owned" by five different parties. Frøsig (2016) said that, "there are always problems with land rights. Many plots of lands have a sign that says: "This land is not for sale." That is because there is a lot people running around selling land that they don't own. There is a lack of land registration, which is a huge problem. You never know who owns the land." In more that 10 percent of the country, there is a lack of clear titles for the land, according to the IEF.

However, by taking advantage of IT solutions, Kenya has made document management electronic, which has made made it faster to transfer property and is making the registration of property a more streamlined process. In Nairobi, the land registry has also begun to get digitized and the development of electronic services for the citizens has started (World Bank 2016). Other attempts to mitigate this problem has been taken by the private sector, which is trying to address a problem that the government has chosen to ignore. Online retail companies are developing informal postal codes in order to figure out where people live so they that they can deliver products ordered online. To make their customers geographical location more precise, they let people add GPS coordinates. Since a great part of the population has a smartphone, they can provide this data as well as upload a picture of what their house looks like. As Kiuyi (2016) said, people "can't tell you I live on this and this address – because that is not how Kenya works".

Political influence on the judicial system is high, making the courts and judges unable, or unwilling, to provide equal treatment under the law. The Kenyan government shows a high degree of favoritism to well-connected firms and individuals when selecting government officials, deciding upon policies, and awarding contracts. Prosecution of top officials still has not been done successfully and our field research shows that the guilty are rarely punished – especially if they are wealthy. This is a particular harm to property rights, which requires that the judicial system is autonomous and accountable (Heritage Foundation 2016).

Muthoni (2016) argued that human beings basically are corrupt. Some appear to be less corrupt, but that is because they are in well-functioning systems. If you are caught being corrupt in the United States, you will get prosecuted and punished for your crimes. If such things are allowed, people will do them. Since Kenya is structurally weak and have poor systems, people are able to exploit it without any consequences, and in reality, they do. Furthermore, the lower courts remain slow due to lack of financing and staffing. Kiuyi (2016) reported that he was once stopped by a police officer for a crack in the window of his car and was “invited” to pay a bribe several times. When he refused, he was sent to court where at the reception of the court he was yet again “invited” to pay a bribe to have the charges dropped against him. To repeat, this was at the court house reception. People without money or power are frequently sent to the court, where they experience a slow and unjust treatment. Since the effectiveness and transparency of the judicial system has shown to be key for economic growth, it extremely detrimental to economic growth.

5.3.1.2 Freedom from corruption

Lack of transparency in governmental procedures and legislation provides opportunities for empowered governmental officials to take advantage of their authority and discretion as they interpret and govern the legislation in a way beneficial to themselves. The complexity and burdensome legal requirements makes it very challenging for entrepreneurs to navigate both starting and running a business. This presents profit opportunities for control authorities as they are better positioned for “negotiating” terms. Opportunities for graft comes from excessive and unnecessary regulations. This lack of transparency in Kenya makes fertile ground for illegitimate market interactions. As a result, buying basic governmental services is a big challenge for entrepreneurs.

Corruption, therefore, remains a significant barrier for entrepreneurs to find opportunities in Kenya. No one can see himself or herself free from governmental interference with private property, and people do not feel sure that they can keep the fruits of their labor (Heritage Foundation 2016). The Global Competitiveness Report (2015) ranks corruption as, by far, the most problematic factor for doing business in Kenya. There are high levels of irregular, undocumented payments and bribes in everything from awarding public contracts and licenses, to obtaining favorable judicial decisions. Kenya ranks really high when it comes to how common it is for public funds to be given illegally to certain individuals or groups. Our interviews also revealed that it is generally expected to be stopped numerous times transporting goods by road. Every time you are stopped, you are forced to pay a fee equivalent to $5 in order to proceed or else you risk being stalled for several hours (Frøsig 2016). Other than being very costly, this is a very time consuming process. It is an activity that creates absolutely no value, but hinders economic growth. Basically it is a distortion that benefits those in power at the expense of the people.

Kiuyi (2016) told us about Samsung, who wanted to set up a manufacturing plant in Kenya, where they already had operations. Far into the negotiations, Samsung found themselves with no other option than having to put an end to their plans establishing this plant in Kenya. The government officials were too greedy and corrupt for them to build a good relationship. Not only did the manufacturing plant go to Ethiopia instead of Kenya, but Samsung pulled many of their operations out of the country, firing a significant number of employees, which resulted in fewer jobs and less taxes for the government. So even though Kenya is strategically placed with the coast city Mombassa, foreign direct investment is discouraged because of corruption.

On a positive note, a lot of our interviewees explained to us that if invitations to pay a bribe are refused, the government officials will often not bother to proceed to filling out the formal paperwork and issue an official ticket. A no nonsense policy can be followed, yet everyone who had followed their moral conviction also had been to court (Muthoni, Kiuyi, 2016). Successful initiatives have also been implemented to reduce corruption. One is the implementation of payment of parking tickets on personal devices electronically. Before parking officials would charge less than the full price of parking fine, but would then put that money in their own pockets. Both parties involved would benefit – except the government. Today, the ticket is paid on the phone without the parking official being a monetary middleman. The same basic idea has been applied to the payment of electricity and other services from the government, which ensures that one can avoid bribes and the government can collect the money it is entitled to. Additionally, entrepreneurs will not be harassed by government officials as their records can be quickly checked.

Summing up, corruption in Kenya is pervasive and the entire governmental system is infected by it. Albeit some improvements, the nation is ranked 141 out of 168 nations by Transparency International, who has systematically been measuring and documenting the level of corruption in the country. In their yearly Corruption Perception Index, Kenya scores 25 out of a 100, where 0 is the worst score (Transparency International 2015). Kenya is so corrupt that even the anticorruption unit has become corrupt, reported Muthoni (2016).

5.3.2 GOVERNMENT SIZE

5.3.2.1 Fiscal freedom

Top income and corporate tax is 30 percent and there is additionally a value-added tax and a tax on interest, which all affect the entrepreneur’s fiscal freedom. According to the Global Competitiveness Report (2015), the tax rates is the third biggest hindrance for entrepreneurs being successful in running a business. Ian Lorenzen from Afriscan (2016) reported that there is a high amount of different taxes to be paid in Kenya, and that it is generally perceived as being an excessive tax level. This perception leads to a lower reward for undertaking entrepreneurial risk.

With the implementation of new counties came additional taxes and requirements, which functions as a disincentive for entrepreneurs, according to Muthoni (2016). According to her, the new county government system is “crazy”. Instead of taxing the “food”, they are taxing the “seed” – meaning that entrepreneurs are hindered in exploiting the opportunities that they have discovered. An essential requirement for economic growth is the possibility and encouragement to exploit opportunities, an essential thing that the county government has not gotten right. In their effort to generate revenue, the government is strangling the entrepreneurs by lack of fiscal freedom.

5.3.2.2 Government spending

Kenya is scoring significantly higher than the world average on government spending and ranks 46th, placing them in the category “free”. This is great for the Kenyan entrepreneurs as it puts fewer limitations on their opportunities when government spending remains low, as tax goes up with increased government expenditure (Heritage Foundation 2016). Kenya also will avoid public debt, thereby ensuring dynamic entrepreneurial growth.

Albeit there is no agreed upon optimal level of government spending, most will agree upon a few basic public goods. Our interviews revealed that government is setting their focus on improving and investing in infrastructure. Due to Kenya's strategic location with Mombassa on the coast, it is crucial for the country to have solid infrastructure in order for them to be able to take advantage of their recent discoveries of oil, gas, and minerals and export them efficiently. That is materializing in big investments in trains, railways, and highways. The biggest investment is going to be a railway going from Mombassa, through Nairobi, and continue up to Northern Kenya. Yet, there are also plans to build a so-called "super highway" from Mombassa to Nairobi and there have been investments in power production in the form of solar panels and wind parks, according to Frøsig (2016).

Our data, as well as the reports, give indication that government spending levels provide a high degree of freedom for entrepreneurs and shows that government is not excessively taking on projects that could have been done by the private sector. Productivity and efficiency will always be higher when privately owned as well as ensuring continuous maintenance and development.

5.3.3 Regulatory efficiency

5.3.3.1 Business freedom

Kenya's institutional environment is dominated by a set of complex and non-transparent laws and regulations. The government's effort to enhance the regulatory efficiency has been lethargic. Business freedom is categorized as "repressed" in Kenya as the state unduly interferes with the people's right to start and run a business. It takes 10 procedures to register a business and the cost of obtaining a license equates more than the two times the annual income for the average Kenyan citizen. It takes 30 days to start a firm and another month to obtain the license (Heritage Foundation 2016). The World Bank's report, *Doing Business* (2016), adds more detailed information about the challenges of starting a business: despite making it easier for entrepreneurs to *pre*-register their company in certain major towns at government service centers, it costs 35,3 percent of income per capita a year to start a business. The lack of business freedom stands clear when compared to the other countries of the world – it ranks 161 out of 186 countries (Heritage Foundation 2016). The Global Competitiveness Report (2015) confirms this data and ranks Kenya very low on this parameter as well.

One entrepreneur told us his story as an entrepreneur. Karanu (2016) was previously a photographer, studying journalism, but he fell in love with filming and started his own company. Because of the industry he entered, he needed to apply and pay for several licenses from three different government agencies. Not only did he waste a lot of time figuring out the complexity of the changing license requirements, but many of the licenses were actual double payments, paying for the same thing multiple times. Much of the confusion and complexity, he argued, was due to the devolution of power from government to the counties, and yet still having to pay both places. Ultimately, he ended up not having the necessary resources to run his businesses and was spending more money on licenses than he was actually making through his business. Today he is no longer actively involved in running that business.

Muthoni (2016) reported that, "in the county governments there's devout corruption. It's such a big problem that people are feeling like almost giving up". Lorenzen (2016) argued the same thing when he said, "the different counties are the ones causing corrupt behavior and confusion". Not only is it difficult for the entrepreneur to understand the changes, but then having to pass on the extra costs to customers and explain the reason why – that does not make it any easier to retain and attract customers (Nyakuraya 2016). Some were of the understanding that the counties were helping entrepreneurs and bettering conditions, but that was mostly those without direct interaction with the counties and placed in Nairobi. The Kenyan government appears almost hostile towards entrepreneurs compared to Hong Kong, where you can obtain a license by filling out a single form and have your business up and running within hours.

If one needs to obtain a license, one is about to embark on a long and tiring journey. Despite having the opportunity to pre-register online (World Bank 2016), it is not a guarantee you get the license, which further discourages the entrepreneur. If you live out in the counties and manage to pre-register online, it still does not save you from having to travel all the way in to Nairobi. An entrepreneur doing his best to follow the formal institutions will encounter many challenges. Muthoni (2016) told us that you need numerous licenses – everything from health and fire licenses – which are extremely hard to obtain, to start your business. It is overwhelming for a small business and if you do not have a licenses you will be harassed by government officials.

Lorenzen (2016) said that, "the way people work with corruption is that they comply with small bribing in order to get things done faster, especially true for obtaining permits". "They (government officials) come in and hope that they can somehow corner you so that you will have to pay a bribe. Then they come back six months later to do the same thing. If you go for the formal process, it is very expensive, very bureaucratic and takes many, many months – it could take a year", said Kiuyi (2016). Even well-running businesses will go under when being harassed for all the licenses they need to obtain. Government officials also want additional bribes to let them have and run their business. Therefore, entrepreneurs wanting to follow the formal institutions are scared away from starting a business in the first place.

As a result, entrepreneurs are pushed into using informal methods and to avoid dealing with the hassle of licenses. For people working in IT this is easier to work around as compared to those working in farming and transportation. Three IT savvy guys can meet up with their computers and an internet connection, without the government knowing anything about it until after five years when they are an established business. "ICT allows people to start up their own business without much dependency on government", said Kiuyi (2016).

5.3.3.2 Monetary freedom

Due to the reality of state-owned organizations, a wide range of government subsidies, and the enforcement of agricultural marketing boards, the government is able to regulate prices. When prices are not determined by the free market, but regulated by government, it robs entrepreneurs of the freedom needed to create long-term value. Not surprisingly, Kenya is ranked 124th in the world on monetary freedom (Heritage Foundation 2016).

In the The Global Competitiveness Report (2015), inflation ranks as the fifth greatest problem for doing business and Kenya is lacking significantly behind the world average on this aspect of monetary freedom. As discussed in the literature review, inflation causes increased costs of doing business and is basically a hidden tax. Kiuyi (2016) told us that, "if you then factor in inflation, you will lose money by putting them in the bank, because the savings rate is lower than the inflation rate". Frøsig (2016) also explained to us that the local currency is greatly devaluating.

The high inflation and unstable currency brings down monetary freedom, because entrepreneurs need a reliable medium of exchange and to be able to store value. Without this freedom, entrepreneurs are hindered in creating long-term value and build up capital, as investments and savings cannot be made confidently. Over the last six years, inflation has averaged on 8,2 percent, but has been as high as 18,2 percent in 2012. Unreliability and unpredictability is the exact opposite of what entrepreneurs need (Heritage Foundation 2016).

5.3.4 Market openness

5.3.4.1 Trade freedom

Kenya has lowered their average tariff rate from 10,5 to 9,7 percent, leading to a small improvement in an otherwise very limited trade freedom environment. The country is ranked 145th in the world, mainly because the regulatory barriers facing the import of agricultural products and the lack of customs improvements (Heritage Foundation 2016). The Doing Business (2016) report ranks Kenya 131st in terms of trading across borders.

As the reports indicate, the interviewees are seeing a slow, but improving trade freedom, yet they still see several obstacles to make the nation fully competitive. Both Growth Africa and IFU said that import laws are very complicated, but that the recently established export processing zones (EPZ) have helped making it easier to export. Even though international trade has not been encouraged historically, it is now starting to become a priority for the government and trade barriers will hopefully be drastically minimized soon.

5.3.4.2 Investment freedom

Investment freedom has been improved, although regulatory difficulties meet foreign investors when wanting to invest in Kenya. The Global Innovation Index (2015) finds that a higher percentage of R&D investment is from foreign firms who set up research labs. Our interviews did not reveal much about the degree of investment restrictions or government's interference with investment.

5.3.4.3 Financial freedom

Financial freedom is restricted because the financial sector is vulnerable to government influence. Several domestic financial institutions are owned or partly owned by the state. As a result, the government is able to influence how credit is allocated, limiting competition and hurting entrepreneurs. The most significant improvement in the financial sector, and a very noteworthy one, is the introduction of mobile banking that has increased financial inclusion in Kenya (Heritage Foundation 2016).

The lack of competition between financial institutions can be seen by the alarmingly high interest rates the banks are charging. According to Lorenzen (2016), bank loans are extremely expensive, which discourages people from taking risks, and they therefore tend to follow safe business models, limiting innovation and economic growth. Frøsig (2016) told us that, "to borrow local currency, you pay 20 percent interest rate. The national bank interest rate is 12 percent and then the banks add some extra on top, resulting in 20 percent". The cost of financing entrepreneurial activity is very high and it limits competition in the market.

5.3.5 INSTITUTIONS SUMMARY

Our field research data and the reports used show us that the institutional environment limits the freedom required by entrepreneurs to be able to discover and exploit opportunities. The weak rule of law is the main reason for that. There is weak protection of private property and a lack of transparency and openness in government's regulatory processes. All of this and more, enables those in government positions to take advantage of their power and corruption infects all of the nation as a result of that. The government size seems to hurt entrepreneurs most when it comes the tax rates, especially the tax required even from trying get a business of its feet. On the other hand, Kenya is doing well in their limited government spending.

Kenya performs very poorly on regulatory efficiency and the number of licenses and costs involved in starting and doing business, is driving people out of business – or discouraging them from even starting one. It fundamentally makes entrepreneurs unable to exploit opportunities when the state interferes illegally and excessively. Another aspect is that Kenya has been unable to keep inflation low and their currency stable, which is a major hindrance in doing business as reported by The Global Competitiveness Report (2015). Trade freedom is low, but improving especially in the region. Investments meet regulatory complexities, but R&D

investments are coming in at an increased level. None of those institutional factors seemed to be significant for the entrepreneurs that we interviewed. Financial freedom, on the other hand, hit them due to the high interest rates charged from the lack of competition between financial institutions and government interference.

All in all, we found rule of law and regulatory efficiency as being by far the two most important institutional pillars for the Kenyan entrepreneurs. Those are directly influential on entrepreneurs starting and running their business, and more fundamentally in discovering and exploiting opportunities.

5.4 Analysis of the Entrepreneurial Environment

The examination of the institutional and cultural setting in Kenya revealed an environment of very poor quality. From the institutional analysis, it was made clear that the Kenyan government, although trying to improve the system, has not yet managed to create a supporting environment for entrepreneurs. The formal 'rules of the game' are countering entrepreneurial efforts in a variety of ways, in particular due to corruption and lack of regulatory efficiency and transparency. These factors have had direct impact on starting a business, forcing people to quit before the business has even taken its form. As mentioned by several of the people interviewed, the bureaucratic and corrupted behaviors found within government, have driven Kenyans to find ways of avoiding to deal with government all together. Sitati Kiuyi states that entrepreneurs no longer expect anything good to come from the government. When forced to collaborate, in case they need to obtain a license or seek some kind of approval, the entrepreneur will often endure having to pay a bribe. Even with newly elected leaders in the political sphere, the general perception is that they are not for the people, but simply new faces to steal more money (Kiuyi 2016). Ian Lorenzen from Growth Africa mentions how investors will typically help to minimize the interactions with government and that if the company has its activities within the public sector, Growth Africa does not have much interest in collaborating. It thus seems apparent, that despite the good intentions set forth by government, they have yet to receive trust from the community. The cultural barriers to entrepreneurship were also made visible. The entrepreneurs are not allowed to celebrate their achievements, and expectations from family and peers forces them to divert money outside business purposes.

Evidently, the results of the previous analysis suggest an entrepreneurial ecosystem that is severely constrained. An environment, in which the 'rules of the game' are against the entrepreneur. The following analysis of the Kenyan entrepreneurial environment will thus examine the current state of the startup landscape and investigate how culture and institutions have affected the abilities of Kenyan entrepreneurs to discover and exploit opportunities. It does so by using the Global Entrepreneurship Index (GEI) as a benchmark for the analysis, while supplementing with findings from the World Bank, the Global Innovation Index (GII), and the Global Competitiveness Index (GCI). Ultimately, by applying data from interviews, own observations, and publicly disclosed reports on innovation and entrepreneurship, this section assesses whether the quality of the Kenyan entrepreneurial environment is a reflection of the findings from the institutional and cultural analysis.

5.4.1 Entrepreneurship and Innovation Indices

In order to analyze and assess the quality of Kenya's entrepreneurial environment, a selected range of global research initiatives has been scrutinized. The selected indices aim to provide comprehensive measures of countries' business environments, some of which are specifically focused on the conditions for entrepreneurship and the level of entrepreneurial activity (see table D). While Kenya is generally performing poorly across these studies' global samples, there are regional indicators suggesting that Kenya is performing strong among its peers, in particular with respect to Ease of Doing Business and the GEI. In terms of Kenya's competitiveness and levels of corruption, however, the country seems to be in a standstill.

TABLE D: KENYA'S RANKING ON SELECTED INDICES

Index	Ranking Kenya (out of)			
	Year 2013	Year 2014	Year 2015	Year 2016
Ease of Doing Business	121 (181)	129 (189)	136 (189)	108 (189)
Global Competitive Index	102 (142)	90 (144)	99 (140)	-
Corruption Index	136 (177)	145 (179)	139 (168)	-
Global Innovation Index	99 (142)	85 (143)	92 (141)	-
Global Entrepreneurship Index	98 (118)	102 (121)	86 (130)	104 (132)

5.4.2 GLOBAL ENTREPRENEURSHIP INDEX

The GEI represents the first attempt to measure productive entrepreneurship at the national level, embedded in a specific institutional context. The GEI framework is based on the idea that entrepreneurship represents the dynamic reaction of three factors - entrepreneurial attitudes, entrepreneurial abilities, and entrepreneurial aspirations. These three sub-indices stand on 14 pillars, each of which contains an individual and an institutional variable that corresponds to the micro- and the macro-level aspects of entrepreneurship. Examining the ecosystem profiles of different countries provides interesting clues about country-specific features and the determinants of the quality of a country's entrepreneurial ecosystem. This is important, because it helps policymakers focus on areas that appear to be constraining a country's entrepreneurial performance. Unlike other indexes that incorporate only institutional or individual variables, the pillars of the GEI include both. Thus, the index builds on Baumol's (2007) insight that the effects of entrepreneurial effort on economic growth will depend on the national institutional context in which those efforts take place. By examining the 14 pillars, it becomes possible to illuminate to what extent the impact of institutions and culture is reflected in the GEI framework which will be dealt with in the discussion (GEI 2016). Three factors in the GEI framework (opportunity perception, technology absorption, and competition), however, have been left out, as they were either not perceived to be relevant in relation to our interviews or did not allow for a proper assessment to be made.

TABLE E: GLOBAL ENTREPRENEURSHIP INDEX OF KENYA

Pillar scores from worst to best	Score	Entrepreneurial Factor	Ranking compared to Sub-Saharan Africa (SSA) average
1. Startup Skills	0.05	Attitudes	Below
2. Internationalization	0.08	Aspirations	Below (a lot)
3. Human Capital	0.12	Attitudes	Below
4. Cultural Support	0.16	Abilities	Below (a lot)
5. Product Innovation	0.19	Aspirations	Below
6. Risk Acceptance	0.19	Attitudes	Same
7. Technology Absorption	0.20	Abilities	Same
8. Risk Capital	0.23	Aspirations	Above
9. High Growth	0.27	Aspirations	Above
10. Opportunity Perception	0.28	Attitudes	Below
11. Opportunity Startup	0.29	Abilities	Same
12. Competition	0.34	Abilities	Same
13. Process Innovation	0.39	Aspirations	Above (world average)
14. Networking	0.69	Attitudes	Above (above world average)

Source: Global Entrepreneurship Index 2016

5.4.2.1 Entrepreneurial Attitude

Entrepreneurial attitude is defined as societies' attitudes toward entrepreneurship. It represents the population's general feelings about recognizing opportunities, knowing entrepreneurs personally, endowing entrepreneurs with high status, accepting the risks associated with business startups, and having the skills to launch a business successfully. Entrepreneurial attitudes are important because countries need people who can recognize valuable business opportunities, and who perceive that they have the required skills to exploit them.

In the case of Kenya, the perceived **"startup skills"** among the population ranks at the very bottom with very few believing they have the necessary qualifications to excel in doing business. Although our interviewees stressed that education have in fact improved it recent years, the curricular is still very much of academic character with less focus on the practical dimension (Muthoni 2016). At the Hub East Africa, it was also mentioned how entrepreneurship education was sufficient for starting a business, but not so much on managing and scaling the firm (Karanu 2016). In developed countries, business formation, operation, management, etc., requires skills that are acquired through formal education and training. Hence, education, especially postsecondary education, plays a vital role in teaching and developing entrepreneurial skills in Kenya (GEI 2016). In the long term, African universities need to anchor management competence in their teaching, and in the short term, institutions promoting start-ups or transfer tech skills should combine this with training in commercial management (Manske 2015).

Important to note, however, is that research institution and industry need to collaborate when forming the entrepreneurial education. The industry in Kenya complains that graduates from the local universities are not ready for the industry, and universities complain that they are not getting enough feedback from the industry (GII 2015). If such linkages are not reinforced, one risks generating an output of students that does not match the requirements of industry, in which an increasing amount of resources, on behalf of the businesses, will have to be spend on developing people's skills to become good enough (Kiuyi 2016). Moreover, the creation of technology meeting places (co-working spaces, incubators and accelerators) has become particularly relevant in order to provide mentorship and guidance for Kenyan entrepreneurs (Manske 2014). By doing so, they compensate for the lacking institutional environment, and heighten the level of business knowledge. However, these service providers are still nascent and geographically restricted to Nairobi (DGGF 2015).

Other than education, however, the low ranking of skill perception in Kenya is related to the level of risk acceptance. **"Risk Acceptance"** is defined as the percentage of the population who do not believe that fear of failure would prevent them from starting a business. With several of the interviewees, it was mentioned that the biggest obstacle for Kenyan's is lack of confidence in themselves and in their abilities as entrepreneurs (Bakker 2016, Muthoni 2016). Moreover, in case they do get a business up and running, they expect to have success already within a few months (Bakker 2016). They strive to be an overnight success, without a proper understanding that the process of starting a business takes time and ultimately they give up due to lack of results. Karanu said the following during an interview: “Kenya is growing fast, too fast! The country is like a new born baby who didn’t crawl, but just started walking.” What is missing in Kenya is an entrepreneurial framework to guide them. The entrepreneurial phases are not transparent and when the startups hit an obstacle, they stumble, and do not rise again (Karanu 2016). Arguably, the expansion of entrepreneurial support systems as mentioned above is a starting point for guiding entrepreneurs. However, as mentioned by Ian Lorenzen (2016), ecosystem implies that there is a flow of input and output between different stakeholders, and he is not sure that is the case in Kenya. There is lot of friendly competition between entities, without an understanding of “feeding into” another entity and other people’s work, in order to strengthen the ecosystem as a whole. There needs to be more clarity and transparency as to how all of the organizations, even government, fit and work together, and what the differences between them are. It is most likely confusing and overwhelming for an entrepreneur or SME to navigate the system in order to find the right fit and the institutional and cultural environment does not make that process any easier.

The low ranking of Kenya’s **“Cultural Support”** for entrepreneurs matches the findings from the cultural analysis. In fact, the country scores much lower than the Sub-Saharan average, with the majority of inhabitants preferring to enter a traditional profession. In particular, this is caused by the separation between the older and younger generation with the former not perceiving an entrepreneurial career as a desired occupation. Additionally, low cultural support is caused by high levels of corruption in Kenya, which undermine the high status and steady career paths of legitimate entrepreneurs. At the Hub East Africa, it was mentioned how corrupt government officials providing funding to entrepreneurs would actually discard good ideas in case they were not willing to bribe them, which have now caused many of the startups who actually did receive funding, to have deep financial problems, as their business ideas were of poor quality already from the outset. Moreover, those who paid the bribe would often get funding way beyond their capital requirements, thus completing a vicious circle of poor funding management. Lastly, Kenyan entrepreneurs described a pervasive fear of venturing into self-employment as a result of cultural attitudes toward familial financial obligations. These cultural expectations make it difficult to deny goods or credit to extended family members or relatives and can become a great source of discouragement. These behavioral patterns of giving out goods for free, and diverting business funds to nonbusiness purposes, are cultural and socioeconomic impediments to enterprise growth (Robb et al. 2014).

"Networking" is the pillar in which Kenyans perform best, even above world average. Networking combines an entrepreneur's personal knowledge with their ability to use the internet for business purposes. This combination serves as a proxy for networking, which is also an important ingredient of successful venture creation and entrepreneurship. Entrepreneurs who have better networks are more successful, can identify more viable opportunities, and can access more and better resources. At the Hub East Africa, it was mentioned how online communities, such as Facebook, facilitate much needed knowledge sharing. Groups have been established for almost any given industry and by using these forums, members can keep themselves informed and keep themselves strategically ahead. When having a business up and running, there are even online communities in which one can advertise the services of the company, with some groups counting more than 100,000 members. By and large, the Kenyan entrepreneurs are very active when it comes to participating in meetings and events and keeping themselves informed on the current business landscape. They do not rely on government to provide the answers, but find answers using their networks (Karanu 2016).

5.4.2.2 Entrepreneurial abilities

Entrepreneurial abilities refer to the entrepreneurs' characteristics and those of their businesses. Different types of entrepreneurial abilities can be distinguished within the realm of new business efforts. Creating businesses may vary by industry sector, the legal form of organization, and demographics, such as age and education. The GEI defines entrepreneurial abilities as startups that are initiated by educated entrepreneurs, and launched because of someone being motivated by an opportunity rather than necessity.

The **"Opportunity Startup"** pillar is among the best performing in Kenya. It is a measure of startups by people motivated by opportunity rather than necessity, and examines the regulatory constraints facing entrepreneurs. Interestingly, the regulatory constraints are measured using the Index of Economic Freedom variable as applied in the institutional analysis. As such, despite the institutional analysis suggesting that the regulatory framework in Kenya is among the most prominent barriers for the entrepreneur, it is, however, performing in the better end of the GEI pillars. However, as the ranking is based on two separate factors, it is arguably the individual level of finding opportunities out of opportunity that heightens the score, whereas the regulatory constraints are counterintuitive. Our data revealed that the regulatory constraints are linked to non-transparent and complex laws and the devolution of power to counties that have proven to increase the level of administrative burdens (Karanu 2016). Moreover, entrepreneurs are finding it difficult to obtain licenses, with expensive and bureaucratic procedures (Kiuyi 2016).

The level of **"Human Capital**" in Kenya ranks very poorly according to the GEI. The prevalence of high-quality human capital is vitally important for ventures that are highly innovative and require an educated, experienced, and healthy workforce to continue to grow. An important feature of a venture with high growth potential is the entrepreneur's level of education. Finding skilled labor was regarded as challenging by all incubators. Rather than waiting for people to approach them, a lot of time is spent headhunting the most qualified people and convincing them to join in a given project (Kiuyi 2016). Students in Kenya are much younger when they graduate, which makes it a lot harder to start a new business due to lack of experience (Lorenzen 2016). The Global Innovation Index (2015) mentions pupil-teacher ratio, tertiary education and tertiary enrollment as particular weaknesses of the human capital level in Kenya. The same report, however, finds that expenditure on education, with 6.6 percent of GDP, ranks 19th in the world, thus suggesting that the government acknowledges the importance of improving the educational level and that something is being done.

5.4.2.3 Entrepreneurial aspiration

Entrepreneurial aspiration reflects the quality aspects of startups and new businesses. Some people just hate their employer and want to be their own boss, while others want to create the next Microsoft. Entrepreneurial aspiration is defined as the early-stage entrepreneur's effort to introduce new products and/or services, develop new production processes, penetrate foreign markets, substantially increase their company's staff, and find available risk finance.

In terms of **"Product Innovation",** Kenya ranks poorly. It is a measure of a country's potential to generate new products and to adopt or imitate existing products. In our interviews with

Growth Africa, it was stated how the core product is not the fascination, however, applying outside innovation and making it relevant in the context of Kenya is the fascination to many entrepreneurs (Lorenzen 2016).

"Process Innovation", on the other hand, is a major strength to the entrepreneurial environment in Kenya. It measures the degree to which Kenyan companies apply and/or create new technology, as well as the levels of R&D spending as a percentage of GDP. The level of technology transfers and R&D in Kenya is higher than any other country in Sub-Saharan Africa and it even ranks higher than world average. As already mentioned in the 'Kenya Context' section, the ICT sector has been the engine behind Kenya's entrepreneurial success. In terms of R&D spending, the GII finds that Kenya ranks 35th out of 141th countries, thus emphasizing the will to innovate among Kenyan businesses (GII 2015).

The pillar for **"High Growth",** ranks Kenya slightly above Sub-Saharan Africa. It is a combined measure of the percentage of high-growth business that intend to employ at least ten people and plan to grow more than 50 percent in five years. Although the aspirations of entrepreneurs for scaling their business were found to be the same as anywhere else in the world (Bakker 2016), our data from the cultural analysis, suggest that Kenyans divert money from the business into buying personal goods. Once they can afford to raise their standard of living just a little, like buying a new car, bigger house etc., they will set themselves satisfied and emphasis on growing the business is lost (Lorenzen 2016).

"Internationalization" is the second worst performing pillar in Kenya. It measures the export opportunities for Kenyan businesses, as well as the regulatory openness towards the inflow of foreign entrepreneurs. According to a World Trade Organization report on Kenya (2013), respondents repeatedly referred to problems related to the transport of trade goods. Notably, they referred to problems related to the varying application of axle load specifications for trucks transiting through Kenya and to costs incurred because of the presence of several weighbridges between the port of Mombasa, Malaba, and Namanga. They also complained of numerous police roadblocks, road toll charges, lengthy classification and valuation of import processes, different border opening times and lengthy procedures for issuing work permits (Nganga 2013). Trading across borders is also among the worst performing factors in the 'Ease of Doing Business' report by World Bank (2016). Through our interviews, it was revealed that getting access to staying- and working-permits were seen as a big challenge for foreign entrepreneurs. This lowers the attractiveness of even starting a business in Kenya in the first place, and poses a great threat as the country is already suffering from human capital flight (Karanu 2016).

"Risk Capital" is the last entrepreneurial aspiration, and an essential precondition. As in many other innovation ecosystems, the lack of access to funds is a problem in Kenya. In particular, what is lacking in Kenya are low funding sums in the start-up phase that enables companies to cover initial cost of acquiring equipment. Most investors complain that whilst there is a substantial number of start-ups that could be funded, they are not profitable or scalable. This indicates a mismatch between the requirements of investors and companies (Manske 2014). Whilst venture capital in Kenya only makes up 8.6 percent of start-up capital, in Silicon Valley this is 64 percent. Thus, for many Kenyans bootstrapping is the only option available. Within the ICT sector, a stunning 60.3 percent is self-funded and another 20.3 percent are funded by family and friends compared to 13 percent and 22 percent respectively in Silicon Valley (Manske 2014).

As a response to lack of early stage funding, the rise of so-called "saving groups" or "youth groups" is spreading throughout Kenya. Given that they cannot access startup funding on their own, they go together in groups, and collectively they will manage to raise the necessary capital with each individual contributing with a small sum (Muthoni 2016). Accessing finance through government loans also follows that the entrepreneurs have to be in groups with a minimum of 10 people. For some this is a strong disincentive, as one would simply have too many voices having a deciding vote, making running a business more difficult (Muthoni 2016). Additionally, the initial loan would typically average US $50, which, even in the eyes of the Kenyans, would not get you anywhere. Opposite to most developed countries, the level of risk taken by government was considered to be very low, with even the smallest loans having to be repaid before a new larger sum can be accessed (Karanu 2016). Contrary to most reports, however, the CEO of the Hub East Africa argues that quite a lot of people have savings, and that is basically comes down to the choices people make in life. If they truly want to make use of support systems such as incubators and become part of an entrepreneurial hub, it is simply up to the individual to manage his own finances properly (Bakker 2016). This point of view, however, seems rather naïve, considering the amount of people living below the poverty line.

5.5 Conclusion and future prospects

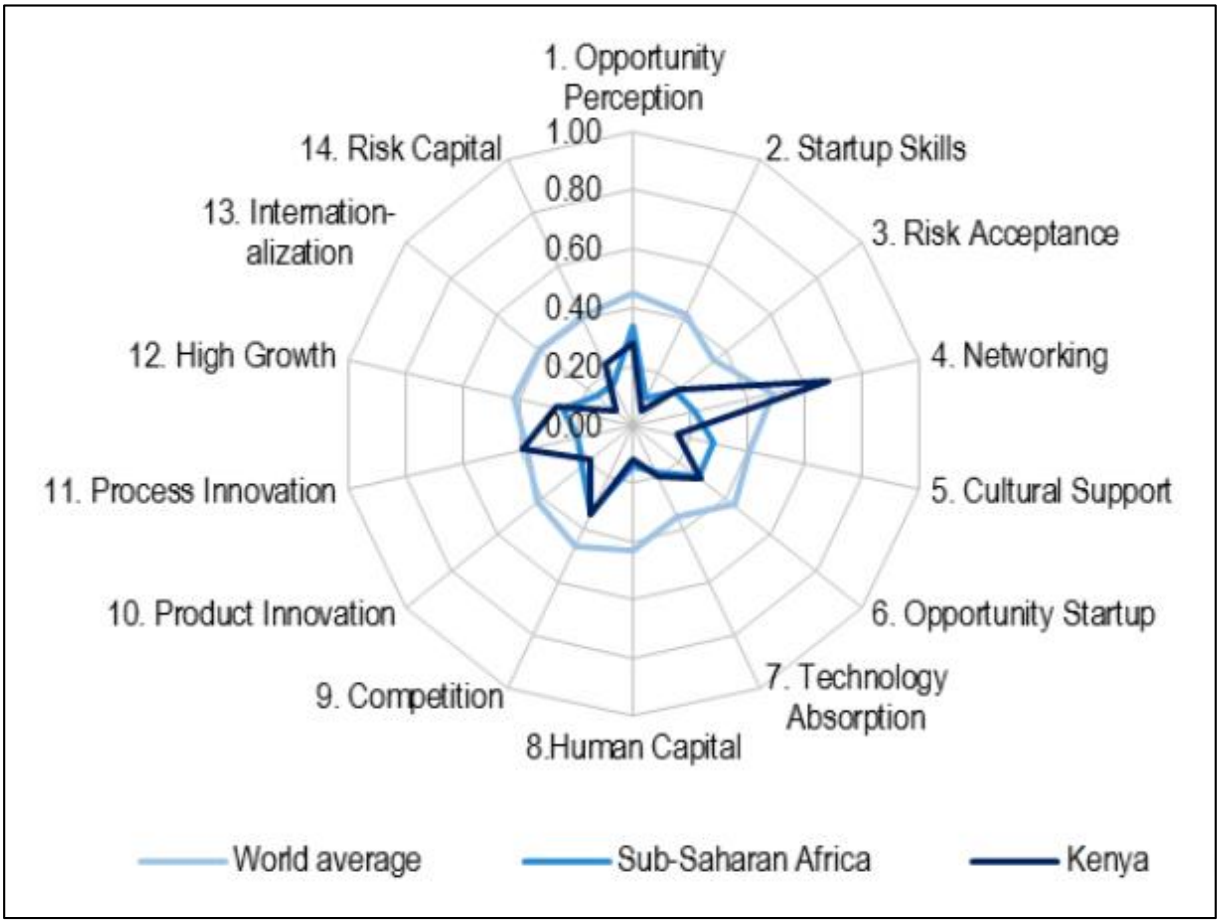
We took our departure in theory and identified the cultural values that influences entrepreneurs and economic productivity in a nation. We did the same with institutions and chose four main “pillars”. We then proceeded to apply the theory in the Kenyan context to understand whether the nation held cultural values conducive to entrepreneurship, and whether the institutions are encouraging entrepreneurs to discover and exploit profit opportunities.

We have done this because there is widespread agreement in the literature that the entrepreneur is important for economic growth. By combining Adam Smith’s model of growth with Israel Kirzner’s version of the entrepreneur, we argue that the entrepreneur is the engine the pushes the whole machinery and is the agent who is able to create economic growth. This is, in contrast to David Ricardo’s production function, what ultimately leads to a government being able to bring the right inputs together and thereby create economic growth. Since we argue that it is the entrepreneur, and not the government, that creates growth, it is less about the inputs and more about enabling the entrepreneur to operate freely and do what he sees fit in order to bring about economic growth.

We contend that culture is the overarching element determining what people value and what they believe. When the people 1) have high moral standards, 2) believe that people are responsible for their own actions, 3) believe that things can be improved since time is linear, 4) believe that it brings more joy to be productive than to be lazy, and 5) that government exists for the people, then the nation will have a culture that values what the entrepreneur does. That will be an incentive for him to discover and exploit opportunities and bring about economic growth for the nation as a whole. Unfortunately, as concluded in the analysis of the Kenyan culture, there is a lack of these values and beliefs. However, like with most other things in Kenya when compared to the Western world, it is changing. The young people are taking more risks, disregarding the older generation’s satisfaction with the status quo, and is learning from other entrepreneurs around the world.

Institutions will often come as a result of what the culture values, albeit laws and regulations can reroute the cultural values and beliefs by incentivizing certain behaviors. Therefore, we argue that the purpose of institutions is to encourage economically productive behavior and enlarge the "pie", rather than interfere with those causing economic growth or by distributing it according to what the people in power believe is best. We find that the institutions in Kenya are not protecting the entrepreneurs sufficiently and that they are taking away the necessary freedom required to pursue their dreams and exploit the profit opportunities they find. As a result, there are many things that can be changed, but as Kiuyi (2016) said, that if corruption was miraculously eliminated, Kenya would soon become a great and wealthy nation. A weak rule of law, low regulatory freedom, and culture not eliminating barriers to entrepreneurship, are the tree main challenges Kenya stands in front of.

FIGURE H: PILLAR COMPARISON – KENYA VS. SUB-SAHARAN AFRICA



Source: Global Entrepreneurship Index 2016

The entrepreneurial landscape in Kenya is largely underperforming when compared to the Sub-Saharan average. The ranking of the pillars is very uneven (see figure H), which is typical for developing countries (GEI 2016). Kenya struggles with lack of confidence and the belief that they are able to make a difference. “One needs to make them believe in themselves first, before they can believe that their efforts and ideas in entrepreneurship can yield fruit” (Muthoni 2016). Moreover, low levels of human capital and lack of students with tertiary education challenges the country’s ability to work its way out of poverty.

Despite government’s effort in putting entrepreneurship on the agenda, cultural support is still lacking and formal employment is perceived as the “reasonable choice”. The confines of the cultural and institutional factors are more than evident, which ultimately limits the extent to which the entrepreneurial environment is allowed to grow. The poor performance of the pillars “startup skills”, “internationalization”, “human capital” and “cultural support”, can be directly linked to the boundaries of culture and institutions, and the ability of entrepreneurs to find and exploit opportunities suffers subsequently. Economic growth is ultimately stalled as entrepreneurs avoid taking risk due to cultural and institutional disincentives. Consequently, the type of business created are replicates of already proven business models, the safe choice, which arguably minimizes the amount of high growth firms in Kenya. On the other end of the spectrum, Kenyans are performing very well in terms of networking and making use of the internet to improve their entrepreneurial capabilities. Additionally, the positive impact of ICT developments in Kenya has meant massive investments in R&D, and Kenyans currently excel at exploiting and developing new technology.

6 DISCUSSION

This chapter will reflect upon the findings and theories used in this thesis to answer the research question:

- *How does the cultural and institutional environment influence entrepreneurs and how is that significant for Kenya's economic growth?*

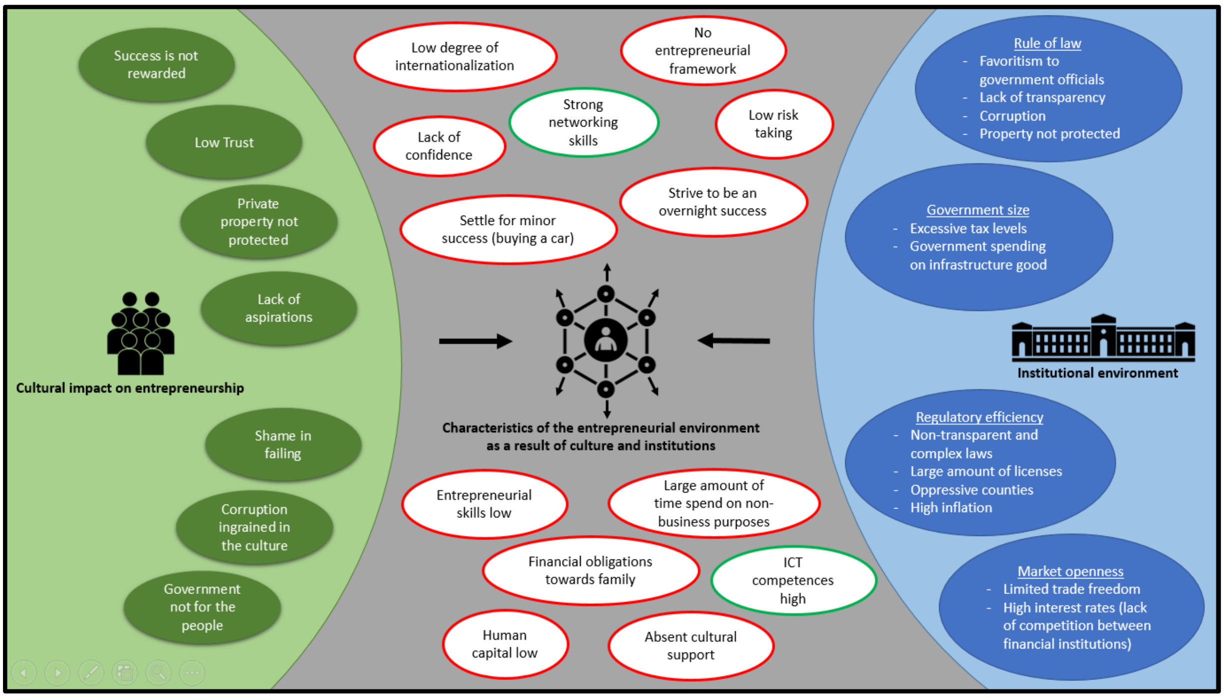
In order to answer this question fully, emphasis has naturally been to examine the environment surrounding the entrepreneur in Kenya, both from an institutional and cultural perspective. Our aim has been to identify whether the entrepreneur can find and exploit opportunities, and if he is rewarded for successfully taking on the risk. The importance of such, is made explicit through our theoretical construct. It follows that a nation's growth depends upon capital accumulation that is the result of entrepreneurs finding profit opportunities, which is ultimately depended upon the institutional and cultural environment. Hence, the following sections will discuss the empirical findings in relation to the research question. Specifically, it interprets and compares to what extent institutional and cultural factors have come to shape the current entrepreneurial landscape. A complete overview of the factors investigated and their outcomes will be established subsequently, and outlined in figure I. The model is intended to give the reader an overview of the findings from the analytical parts. The following discussion will make clear what *types* of profit opportunities are found in Kenya, and to what degree these are economically rewarding both for the entrepreneur and causing economic growth for the country. The assessment of the institutional and cultural factors and how they have shaped current startup landscape is an important element, as this will guide policy makers in creating an environment that actually meets the needs of the entrepreneur.

Arguably, Kenya does not have the resources nor the capabilities to nourish all institutional and cultural obstacles at once, but will have to prioritize their engagement. As such, our model outlines the strength and weakness facing entrepreneurs in Kenya, and provides guidance for government at improving the current situation. Scrutinizing what type of profit opportunities are being found, in the sense what type of new businesses are being started in Kenya, is how we will be assessing the impact of entrepreneurship on economic growth. By understanding what type of businesses are allowed to flourish under the current institutional and cultural framework, one can determine their growth potential and their impact on the Kenyan economy. Additionally, this allows for a reflection of our findings through a conceptual and theoretical lens, thus interpreting how our results relates to theory and previous research. Finally, the last section will outline methodological considerations of our study as well as addressing topics for future research.

6.1 Discussion of the Empirical Findings

The empirical findings of this thesis were based on interviews with a selection of various players within the entrepreneurial landscape of Kenya such as entrepreneurs, incubators, accelerators and support centers, as well as organizations with more general business knowledge such as IFU. The findings of our analysis, as illustrated below, builds upon three main pillars, a cultural, institutional and entrepreneurial. The "grey area" symbolizes the characteristics of the entrepreneurial environment as caused by the cultural and institutional context, with red circles indicating a weakness and green circles a strength.

FIGURE I: The Influence of Culture and Institutions on Entrepreneurship



Source: Own illustration

Culture served as the point of departure in our analysis and laid the foundation for which the institutional environment was built. As outlined in the literature review, a nations cultural values determine what kind of economic system it adopts, the type of policies the government enacts, whether corruption is tolerated, whether freedoms are protected, and what kind of goals individual set for their personal lives (Grudem & Asmus 2013). Evidently, the Kenyan culture is a major constraint in terms of pursuing a career as an entrepreneur. Findings from each of the five cultural beliefs revealed forces that held down entrepreneurs and prevented businesses from living up to full potential. Kenyans have a hard time trusting one another due to a history of people being dishonest and trying to cut corners for their own benefit. The freedom to private property is not respected, with corrupt individuals selling the same piece of land to multiple people, ultimately leading to quarrels and fights that harm business. Moreover, Kenyans who managed to obtain financial success for themselves, were expected to share wealth amongst members of the family and close friends. Such behavior deters any business as it limits the options for scaling, since money is being given away rather than being reinvested.

Entrepreneurs are faced with lack of cultural support *even before* venturing into self-employment. The country puts great shame in failing and has a very low risk acceptance that encourages people to enter regular and more stable types of employment. Our results revealed that this mentality had a big effect on entrepreneurs, as they refused to let their business fail and instead kept it running until they were nearly suffocating. By doing so, the entrepreneur spent valuable energy and resources on running multiple business rather than focusing on a single one. This exact behavior correlates with our findings of Kenyans struggling to put any effort into things and simply looking to make “quick money”.

Once the entrepreneurs achieve some level of financial success, they tend to settle for an improvement in their own personal living standard rather than scaling their business further. Lastly, the Kenyan culture suffers from very low belief in government, which creates an environment in which corruption is accepted at all levels of society as part of doing business. The prevalent belief is that corruption has its origin in the government, however, from our research, it was clear that corruption have become so ingrained in the Kenyan culture that people just go along with it. Despite the fact that bribing gets things done for the entrepreneur, corruption poses a great financial risk for running a business. Changing cultural values and beliefs, however, will inevitably take long time. The results of the factors analyzed are the product of years of experience with powerful elites, corruption, and weak regulatory frameworks. This has made the Kenyans risk averse, eager to make quick money, and prevented them from dreaming and following their desires.

Similarly, the institutional environment in Kenya is largely made up of constraining forces that does not follow the idea of a free-market system. A corrupt governance dominates the institutional environment, interfering in harmful ways through arbitrary taxations and licenses, incidents of bribery, favoritism shown to top officials and a general lack of accountability. For the entrepreneur, the incentives to follow the formal rules are therefore decreased, leading them to seek ways to avoid dealing with government at all. Governmental procedures and legislation are overly complex and lacks transparency, which makes it difficult for the entrepreneur to start and run a business. The World Bank's report, *Doing Business* (2016), reveals how Kenya has improved significantly in ease of doing business in the country by providing the option to register businesses online. However, our field trip revealed that despite the option of online registration, entrepreneurs still have to embark on long and tiring journeys to obtain licenses at centralized offices. As mentioned by several interviewees, the challenge of actually abiding to government legislation is so time consuming that people often tend to give up before even having begun. The establishment of counties following the new constitution in 2010, as an attempt to decrease administrative burdens, has done the exact opposite, and brought about additional taxes and requirements. Hence, the entrepreneur now have to deal with two entities, one at the national and one at the county level, both driven by corrupt agendas that ultimately lowers the reward for undertaking entrepreneurial risk.

In terms of monetary freedom, Kenyan entrepreneurs are suffering remarkably. High levels of inflation has brought about increased costs of doing business. Acting as a hidden tax, the entrepreneur is suffering from a monetary environment that is unstable and where investments and saving decisions cannot be made confidently. Furthermore, lack of competition between financial institutions has caused extremely high interest rates, which discourages people from taking risk and entrepreneurs therefore tends to follow more safe business models, limiting innovation and economic growth. Market openness is also restricted with an excessive amount of trade barriers that makes both export and import a difficult process for the entrepreneur. As a result of the institutional analysis, we found that IT-related businesses are flourishing in Kenya, because they are less likely to fall victim of government interference. The initial requirement for starting such business is limited to having a computer and internet access, and they are able to remain "hidden" from government for a longer time. Basically, our results found that institutions in Kenya are not protecting the entrepreneurs sufficiently, but rather takes away the necessary freedom required to pursue dreams and exploit profit opportunities fully.

The analysis of the entrepreneurial environment in Kenya completes the model by indicating how culture and institutions have helped shape the extent to which Kenyan entrepreneurs find and exploit opportunities. As this thesis dealt with entrepreneurship's effect on economic growth, it was thus important to understand the strength and weaknesses of the startup landscape as well as its shaping factors. Having applied the framework by GEI (2016), our research found that the entrepreneurial environment in Kenya is more or less a direct product of the cultural and institutional factors. As a result, the ability of entrepreneurs to find and exploit opportunities is limited. From the GEI framework, it was evident that Kenya struggles in terms of all three parameters: attitudes, abilities, and aspirations. Performing particularly bad is the level of "startup skills", "internationalization", "human capital" and "cultural support". Kenyans perceives the level of education to be missing a practical component that is needed for linking university teaching to industry needs. Furthermore, in wanting to scale their business for the global market, Kenyan entrepreneurs are confronted with poor legislation and barriers to trade in terms of roads blocks, toll inspections and difficulty in obtaining working visas. Human capital levels ranks very low with tertiary education and enrollment being particularly weak, even when compared to the SSA average.

Cultural support for entrepreneurship was found to be lacking severely, caused by the separation between the older and younger generation, high levels of corruption, and familial financial obligations. Other relevant indicators were the level of risk acceptance and risk capital. Results found that Kenyan entrepreneurs do not have much belief in their own capabilities, which prevents them from starting a business. Arguably, the entrepreneurs settle for already proven business models that involves less risk. This saturates the market as more and more similar business types appear, making it increasingly difficult to make a profit. Looking at risk capital levels, Kenya actually ranks above the SSA but is still far below the world average. Interviews with entrepreneurs revealed that access to funds is considered among the greatest challenges, particularly in the startup phase, and that initiatives taken by government have been inadequate.

The strengths of the Kenyan startup landscape resided around “networking”, high levels of “process innovation”, and “opportunity startup”. The Kenyans perform very well in terms of networking and making use of the internet to improve their entrepreneurial capabilities and find the needed business support. Moreover, the positive impact of ICT developments in Kenya has materialized in massive investments in R&D where the Kenyans currently excel at developing new technology. Referring to the cultural and institutional analysis, the ICT sector has arguably been an industry in which the issue of having a weak rule of law, low regulatory freedom, and hostile culture, is less burdensome. Lastly, the pillar “opportunity startup” reveals that Kenyans are increasingly starting businesses out of opportunity rather than necessity, an essential finding when striving for economic growth.

6.2 Discussion of Findings Through a Theoretical Lens

In this thesis, we applied several concepts including economic, entrepreneurial, institutional and cultural theory to analyze the data collected. This section will reflect upon the practicality of these concepts and theories with respect to the findings from our analysis and determine whether they can be considered significant.

The key argument of this thesis has been to understand the link between economic growth, entrepreneurship, and institutions, as a chain of arguments. Economic growth depends on capital accumulation, which, secondly, both follows and is the result of entrepreneurs finding profit opportunities. Lastly, entrepreneurs being able to find and exploit opportunities depends on the institutional environment. Following this framework, finding opportunities is a first prerequisite for increasing economic growth. As argued by Holcombe, “acts of entrepreneurship create an environment within which innovations build on themselves, leading to continually increasing productivity”. The source from which entrepreneurs develop new ideas is thus a result from past entrepreneurial activity. Our field trip revealed that Kenyans are highly creative and skilled at making use of the resources they got. Moreover, Ian Lorenzen mentioned that Kenyans could basically discover opportunities in every industry given that the workmanship of so many jobs are being performed poorly (Lorenzen 2016).

Lacking ingenuity of Kenyans and the absence of opportunities, therefore, do not constitute the main causes of Kenya being a poor nation. However, in terms of exploiting opportunities and the quality of such (red. their growth potential), entrepreneurs are very depended upon the institutional environment. Institutions will need to allow entrepreneurs both the *freedom to operate* as well as the *protection of rights*. Productive entrepreneurship will only be encouraged when people have confidence that property and profits are secure and that the government will not interfere in their activities. The findings from the analysis, however, reveals that the reality in Kenya is entirely different. The protection of property rights is weak both within the institutional setting with a vague rule of law as well as in the cultural belief of ownership. This holds back the potential of Kenyan entrepreneurs, given that the environment cannot even protect the most basic of rights', namely property. Consequently, entrepreneurs will stop looking for profit opportunities, which, undeniably, is detrimental to economic growth.

Even so, a much more determining factor proved to be lack of freedom to operate. As argued by Adam Smith (1776), "with freedom comes prosperity. As people seek their own best, they do not only increase their own wealth but the wealth of the entire nation as they increase the goods and services produced". Additionally, freedom ultimately fosters more entrepreneurial activity, which in turn creates economic growth (Sobel 2008). A free environment hinges on "the rules of the game", its institutions, to either encourage or restrict entrepreneurship. Our findings of the institutional environment in Kenya, proved to severely constrain entrepreneurial effort. The existence of excessive regulation, corruption, complex law and bureaucratic procedures is the reality in Kenya. Kenyan entrepreneurs do not have freedom to operate, and cannot seek their own best interest. Rather, they become slaves to a system that forces them to spend enormous time on abiding to regulatory requirements. A system in which corrupt entities, at both national and county level, illegally exhaust the entrepreneurs for funds in order to approve licenses. A system that does not reward them for taking risk, and removes the daring of dreaming big. Returning to Smith's model of economic growth (Figure B, page 20), Kenyan entrepreneurs, although opportunities exist, are thus not incentivized to specialize and raise productivity. The institutional environment in Kenya, and particularly from a cultural perspective, does not inspire nor allow entrepreneurs do be truly innovative, as they cannot keep the fruit of their own labor (Grudem & Asmus 2013). This diminishes the economic return, as entrepreneurs will generate less inventive output and additionally strive to keep the business small-scale, in which they will have to endure less interference from government. It follows then that entrepreneurs will enter into unproductive activities, such as trying to avoid the formal institutions and the legal system (Baumol 2007). Kenyans simply do not have faith in their institutional framework, as experience have taught them that government does not exist for the good of the people. However, when working outside the formal and legal systems, the entrepreneurs will not be able to enjoy the comfort of social protection and having legal rights. Although economic growth *can* be created in the informal sphere (Soto 1989), the nation suffers economically as firms tend not to grow and have poor access to capital.

Conclusively, the theoretical construct applied for this thesis revealed a strong causality between the quality of the cultural and institutional setting, and its subsequent effect on entrepreneurship in Kenya. Our research revealed that culture and institutions are negatively influencing entrepreneurs starting and running a business, and this limits their options for exploiting opportunities. The findings also allowed for broad economic conclusions. Evidently, Kenya has failed to create the necessary freedom for entrepreneurs to live up to their full potential. Both cultural and institutional aspects were found constraining, and the growth potential of Kenyan businesses is limited, ultimately hurting the Kenyan economy. The following, discusses more in depth the type of opportunities being found in Kenya, as well as their relevance for economic growth.

6.3 Finding and Exploiting Opportunities in Kenya

Despite the fact that the institutional and cultural environment largely constrain the entrepreneurs' actions in Kenya, opportunities open up for those who can understand to make the most of it. While it is evident that a more developed institutional environment would give better access to resources needed for entrepreneurship, there are options for entrepreneurs in developing countries with minimal access to these resources (Bruton et al. 2008). Our field trip to Kenya revealed the variety of entrepreneurial businesses being established, including selling fruits and vegetables, selling clothes and shoes, kiosks selling various items, and small workshops. Albeit having an underdeveloped legal system, with a weak rule of law, regulatory inefficiencies, and cultural constraints, entrepreneurs have still been able to work out substitutes for such poor structures. Not surprisingly, Kenyan entrepreneurs have developed a unique capability of avoiding dealing with government all together. Although they appreciate the effort done by government, experience have taught Kenyans that they are better off not involving them. The informal sector thus provides a good example of an environment in which opportunities are typically found, as entrepreneurs can avoid regulation and taxes.

As an example, the failure of the government to provide and maintain a proper transportation network in Kenya, has led to the emergence of ad hoc, but vital, transport systems. These link poor rural neighborhoods with the capital city and other urban areas, usually in the form of mini-bus taxis (matatus). The informal economy’s market share of the transportation sector now exceeds 80 percent and has generated many job opportunities, in particular for the youth (Kempe 2014). Although those working in the informal economy are in an environment of uncertainty, the entrepreneurs are highly flexible, and can rapidly alter their activities in order to respond to a changing economic environment. The formal sector is not able to do that to the same extent and with the same flexibility. Moreover, because that the formal sector often will be less rewarding, given the lack of opportunities and higher institutional barriers, the informal sector has been godsend in creating the jobs that the formal sector has failed to generate.

The current entrepreneurial environment, with respect to the cultural and institutional obstacles, has also made the ICT sector particularly interesting for young entrepreneurs. As previously mentioned, Kenyans excel at exploiting the internet in terms of networking and using online platforms to gain knowledge. Government cannot control or impose regulations to the same extent on those, as compared to a piece of land or to production facilities. Not surprisingly, therefore, the ICT sector has experienced rapid growth. The ICT sector still faces many of the same challenges as other industries, including inadequate infrastructure, slow supply of high skilled labor, and insufficient financing, but they are still less exposed to regulations. Moreover, many of the interviewees expressed how they have all welcomed ICT developments, as innovation and technology help fight corruption. Kenya is currently the world leader in the use of mobile payment systems (Manske 2014), and even though services like M-Pesa simply strived to make payments easier, it has also cut out a lot of the corrupt middlemen (Muthoni 2016). Money transactions are being recorded, which makes it harder to disguise bribery. The digital economy holds huge potential for growth, so ICT will be expected to play an increasing role in affording opportunities to the youth of the country.

6.4 Economic Growth in the Informal Sector

One immediate benefit, derived through the growth of the informal economy, is the employment it creates. Jobs are created cheaply and large numbers of individuals, who would otherwise be unemployed and a burden to society, get employed. The informal sector currently accounts for an estimated 81 percent of the total employment, having increased from 23 percent in 1990 (Kempe 2014). It has to be recognized that life in the informal economy, although providing the potential to escape poverty, can be difficult for people and is generally followed by a lack of social protection, legal rights, and formal sources of credit (Kempe 2014). Entering the informal sector might be seen as rational behavior, and for some entrepreneurs even their only option, but the nation suffers economically in several ways.

First, the firms tend to stay small as they need to avoid the government authorities, since growing "too big" would catch the interest of corrupt agencies and officials. Secondly, since the entrepreneurs will not own the property officially, as they cannot register it formally, they will not be able to use the property as collateral for a bank loan and thereby grow their business. The entrepreneur is thus limited to his own savings, or having to approach family and friends for additional capital. Obtaining financing through friends or one's own pocket is obviously not the optimal solution for an entrepreneur who wants to grow a business. Without a source of funding, many start-ups will close before they reach their full potential. Scaling the business is an issue in itself and given that Kenyans tend to copy already existing businesses, and thus saturating the market, the informal sector obviously has its limits to its growth potential. Moreover, many of the aforementioned challenges in Kenya, specifically concerning lacking infrastructure, can only be dealt with if government possesses the necessary capital. The informal sector provides the opportunity for easy tax evasion, which naturally reduces the national revenues and therefore reduces the government's ability to invest in ex. infrastructural projects (Kempe 2014).

6.5 Reflecting on the applied methodologies

From having discussed findings, theories and analytical concepts applied in this thesis, reflections must also be made with respect to the methodological approach. Due the explorative approach used in this paper, it was important to prepare for the field trip based by the use of abroad collection of information about Kenya and related to the field of study. This included reports and academic papers on political, economic, social and environmental conditions. These helped us understand the context of Kenya. With this initial information we were also able to produce an interview framework with which the data was gathered. It was not until after that, that the theoretical and analytical framework could be constructed. Hence, as our knowledge expanded over time throughout the process of collecting and analyzing data, it became beneficial to alternate between theory and data, and make thorough reflections concerning our continuous approach of the thesis. The explorative approach also proved to be demanding, as it turned out to be time consuming to continuously analyze the context and the data in relation to the most suitable literature, as the discovery of new aspects were constantly found along the way.

Given the explorative nature of the thesis, the specific focus for the final analytical framework was not established prior to collecting the data. As such, the use of a semi-structured interview framework, covering a multitude of themes, was crucial in providing depth to the analysis as well as flexibility due to its openness. The semi-structured approach was helpful to uncover and enhance our understanding of the impact of culture and institutions on Kenyan entrepreneurs and essentially provided the direction for the paper. By engaging with our interviewees and encouraging them to reflect on the studied concepts, as well as giving them room to elaborate in more detail on issues they deemed relevant. This was an important aspect of the data collecting process. Accordingly, the question guide was adjusted along the way as new information came forward. The final interviews of the fieldtrip encompass more rich data, as we ourselves became more experienced with the interviewing process and expanded our knowledge of the field.

6.6 FUTURE RESEARCH

Due to the exploratory nature of this thesis, the findings and limitations provide several options for future research and further investigation.

Firstly, as previously outlined, having a bigger data collection that include government institutions, would allow for a broader and more detailed perspective of the government's initiatives and interests in economic growth as driven by entrepreneurs. Additionally, attitudes towards corruption and regulatory inefficiencies from a government perspective, although a very sensitive area, could be interesting to examine. We propose that future research must integrate the government perspective by conducting interviews with officials on the topic of entrepreneurship and the institutional environment.

Secondly, a more longitudinal perspective on cultural and institutional shaping factors in Kenya could provide useful insights. The reciprocal relationship between entrepreneurship and the institutional and cultural environment, as outlined in the literature review, was confined to a few selected parameters. While these provided useful insights to the research question of this thesis, the limited time frame of this thesis gave rise to selecting only a few factors to analyze in depth. Hence, an ideal direction for future research would be to carry out a more comprehensive institutional and cultural analysis over a longer period, to understand fully the dynamics and impact on Kenya's entrepreneurial landscape.

Finally, given that our research was confined primarily to the city area of Nairobi, it would be interesting to investigate how culture and institutions have affected entrepreneurial efforts in rural Kenya. Arguably, entrepreneurs living at urban locations have better access to business support services in the form of co-working spaces, incubators and the like, which makes them better prepared for starting a business. The development of entrepreneurial ecosystems was several times mentioned to be limited to the Nairobi are only, and future research are thus advised to examine the state of entrepreneurship in rural Kenya. Herein, specific interest lies with examining the attitudes towards the counties, as either supporting or opposing entrepreneurs.

7 CONCLUSION

This thesis was dedicated to examine and answer the question: *"How the cultural and institutional environment influences entrepreneurs and how that is significant for Kenya's economic growth?"* The thesis set out to contribute to the debate regarding economic growth in developing countries by exploring Kenya's entrepreneurial environment at firm level. The country of Kenya offered an interesting context for the case because of the high level of innovation the country has become associated with over recent years with renowned technological achievements, such as the famous M-Pesa mobile money service. Founded on qualitative data from a study of Kenya's cultural values and institutions, this thesis provides a contextualized study of the link between entrepreneurship and economic growth. The qualitative data was gathered through semi-structured interviews with actors in the Kenyan startup scene, all of which were conducted during a field study in Kenya from February to March 2016.

The thesis was constructed according to a theoretical framework, which indicated the link and causality between culture, institutions, and entrepreneurship. Cultural theory, as inspired by Grudem & Asmus (2013), Baumol (2007), and Landes (1999), was applied as a theoretical lens to analyze the influence of beliefs and values on entrepreneurship. The findings indicate that cultural barriers to entrepreneurship plays a significant role. Entrepreneurship lacks cultural acceptance, successes are neither celebrated nor rewarded, and the people have a poor work ethic leading to entrepreneurs not having the desire to scale (Global Entrepreneurship and Development Institute 2015). If succeeding, the entrepreneur is expected to provide financially for family and friends, rather than for reinvesting into the business. Lastly, high cultural shame in failing prevents entrepreneurs from terminating businesses that are not economically viable. These factors all constrain the entrepreneur in discovering and exploiting opportunities, which in turn leads to a low rate of national economic growth.

With a foundational economic understanding provided by Adam Smith (1776), we analyzed the institutional environment based on the Index of Economic Freedom (2016) and Baumol (2007). It was examined according to four pillars; 1) rule of law, 2) government size, 3) regulatory efficiency, and 4) market openness. The results revealed that the institutional environment limits the freedom needed for entrepreneurs to be able to discover and exploit opportunities. A weak rule of law was identified as the main obstacle and the cause of a lack of transparency, corrupt behavior, and an inability to protect private property. Additionally, the regulatory efficiency was found to be overly complex and involved a larger number of bureaucratic procedures, particularly with regards to obtaining licenses and paying fees. The devolution of power form government to counties has failed to lower the administrative burdens, but merely created tension between the two, resulting in the entrepreneur being robbed of freedom needed to exploit opportunities. In terms of market openness, the institutional factors did not seem significant for the entrepreneurs interviewed, thus underlining that Kenyan entrepreneurs are more national orientated. However, they acknowledge that high interest rates caused by lack of competition among financial institutions, is a deterrent for their businesses.

Following, the GEI framework (2016) was applied to assess the state of the startup landscape and investigate how culture and institutions have affected the abilities of Kenyan entrepreneurs to discover and exploit opportunities. The causal relationship between culture and institutions' effect on entrepreneurship proved to be highly significant. In particular, the poor performance of the pillars "startup skills", "internationalization"', "human capital", "cultural support" and "risk acceptance", were a direct product of the cultural and institutional restrictions. The strengths of the Kenyan entrepreneurial landscape reside around the networking capabilities of entrepreneurs and their ability to develop and exploit new technology. Strong networking skills was found to be a direct outcome of the poor institutional factors, forcing the entrepreneur to figure out solutions himself, rather than depending on government to provide the necessary services. Evidently, the growing success of the ICT developments in Kenya are a resulting of having a weak rule of law, low regulatory freedom, and hostile culture, making it less restrictive to be an entrepreneur in the that sector.

Conclusively, culture and institutions in Kenya affect the entrepreneurs negatively, because private property is not protected and because entrepreneurs cannot be sure that government will not abuse their property or interfere with their activities, which therefore is lowering their freedom to find and exploit opportunities. The potential for economic growth is thus limited, as entrepreneurs are forced to work outside the formal sector where government interference is lower. As such, government is unfortunately incentivizing to go beyond the formal sector and into the informal sector, leading to unproductive entrepreneurship as opposed to productive entrepreneurship. Opportunities *can* be found in the informal sector, albeit these involve a greater risk and fewer options for high and sustainable growth. Ultimately, the insight from this thesis can prove useful for future policy making. The paper support that entrepreneurs need freedom to engage in productive entrepreneurial activities, and provides additional understanding of the relationship between entrepreneurship and economic growth, and how that relationship hinges on the quality of the institutions and the values and beliefs of the culture, which framed the problem field of this thesis. As a final remark, we can see that government itself, as Ricardo argued, cannot himself cause economic growth. If the Kirznerian entrepreneur is allowed to exploit the opportunities he discover, Smith shows us that the capital will follow, leading to increased productivity and increased economic growth. In Kenya, the growth potential is restricted as the freedom the people need to pursue their own benefit and thereby the good of the nation is limited.

8 RECOMMENDATIONS

Based on the findings of this thesis, a vast range of challenges have emerged both for entrepreneurs in Kenya as well as for the policy makers and international development practitioners. This section will therefore convert the academic findings of this paper into a set of recommendations for the Kenyan government to implement and pay careful attention to.

As discussed, economic growth depends on the market process of finding and exploiting existing profit opportunities. Growth will not occur by, what Kirzner describes as, entrepreneurs being “alert”. On the contrary, they need freedom to be able to both discover and exploit profit opportunities. This thesis has been arguing for a cultural and institutional environment that is conducive to productive entrepreneurship and not one that incentivizes the entering into the informal sector and unproductive entrepreneurship. An ideal institutional environment is characterized by having clearly defined property rights that encourages productivity, a government that does not excessively interfere or impose unnecessary and inefficient regulations, and enables people to trade without restrictions. The overall aim of political reforms for developing countries, therefore, should be to eliminate sources of institutional uncertainty and inefficiency. We found tremendous creativity, skill, and ideas in the Kenyans and this therefore does not constitute the main cause of a Kenya being an undeveloped, poor nation. The reason is a government that is corrupt and abuses its power. This threatens both active and prospective entrepreneurs and hinders them in engaging in productive entrepreneurship.

Instead, Kenya should focus on limiting, what Baumol refers to as being activities that does not increase the size of the economic “pie” (2007). Destructive and unproductive entrepreneurial activities can be channeled into productive ones by offering the right incentives and thereby improve the country’s economic performance. Following, we offer three guidelines that can lead to economic growth if implemented by political reforms in Kenya.

First, reforms should increase the protection of private property, such that entrepreneurs can discover opportunities. Kenya has to correct activities that decreases the size of the economic “pie” by punishing government officials as well as individuals and groups, who enters into corrupt activities, in a firm and public manner. The public offices have to be transparent and the government has to take a position that is intolerant to crime and bribes. The government can be transparent and build trust in the population by openly expose government officials that commit crimes and punish them with severe monetary fines and prison sentences. This will lead to greater respect from the public and could potentially be adopted and reinforced as cultural belief – that government is for the people and not for themselves. This would have to be enforced from the office that hires a consultant to set up a Facebook account for an unrealistic amount of taxpayer money, to the police officers that set up a roadblock to make $5 without bringing any protection or increasing the “economic pie”. The police that now engages in such behavior should rather be put to good use and protect business and entrepreneurs from robbery and vandalism. Coupled with such a reform, the government could increase the salaries of the judges and thereby lower the incentive of taking bribes. This would make the judicial office more attractive for young students who are fed up with the lack of transparency and an unjust rule of law.

Second, reforms should limit government intervention, such that entrepreneurs can exploit opportunities. In the specific case of Kenya, the government needs to re-evaluate the devolution of power that was recently implemented, causing double payments, more bureaucracy and an increased amount of time spend on getting government services. One way that government can limit hurtful government intervention, is by continuing and increasingly use ICT to keep government officials’ activities transparent and less inviting to bribe. ICT has the potential, as seen with the parking officials, to stop bribery, increase government income significantly, and at the same time increase trust amongst the population and for those engaged in business activities. Reforms in this direction will constrain government officials’ power to serve certain groups while taking advantage of others. They would not be able to renege on policy commitments and distort the understanding of the law to the same extent. This could potentially decrease the room the Kenyan government officials have been using for rent-seeking purposes.

Third, we believe initiatives can be implemented that can encourage the change of cultural values and beliefs. The sum of the cultural values constitutes a barrier against people venturing into entrepreneurship as a career path. We observed a proud and healthy patriotic spirit amongst the Kenyan people, yet the people seem to not appropriately value those who takes risk in order to improve the general living standard in the country. Through our interviews and the gathering of data, we identified a non-existence of the celebration of entrepreneurial successes. As emphasized throughout this thesis, what is rewarded and celebrated in the culture will be replicated and desired. If the private sector, and maybe the government, could publicly acknowledge and distinguish those creating significant value for the national economy, there will be a clear incentive for people to want to imitate those “heroes”. This change of mindset could change the cultural values and eliminate the shame attached of trying but failing a business venture.

For Kenya to increase its economic growth and leave the low level of per capita income, the institutional environment has to be improved, and as such can be, following the mentioned recommendations. With improved protection of rights and increased freedom, active and would-be entrepreneurs can discover and exploit opportunities, leading to economic growth after Smith’s model. When the cultural environment starts valuing productivity and improvement and that government exists for the people, we will find the reciprocal relationship between institutions and culture be improved.

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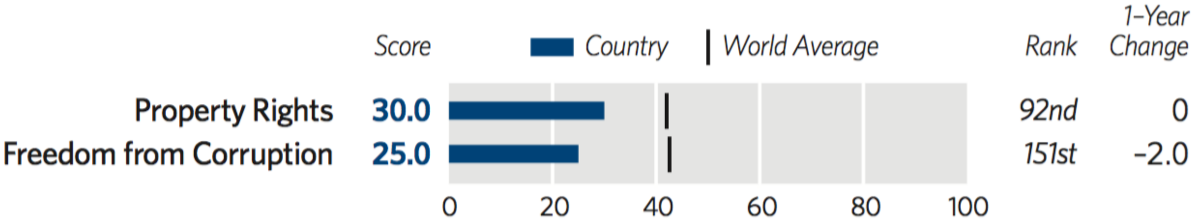
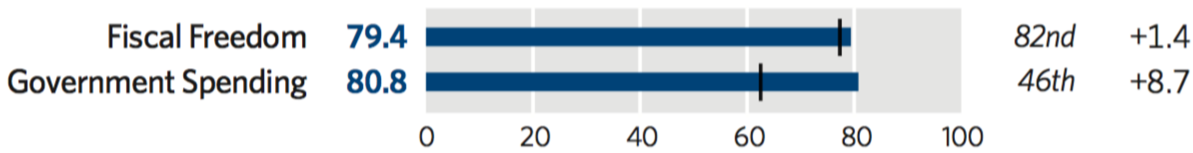
10 Appendices

Appendix A: Index of Economic Freedom of Kenya

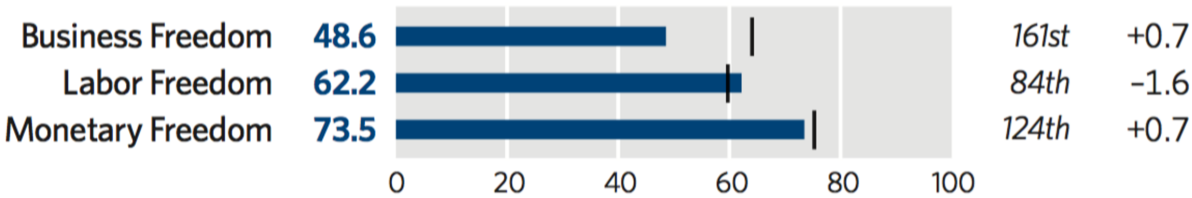
1) Rule of law



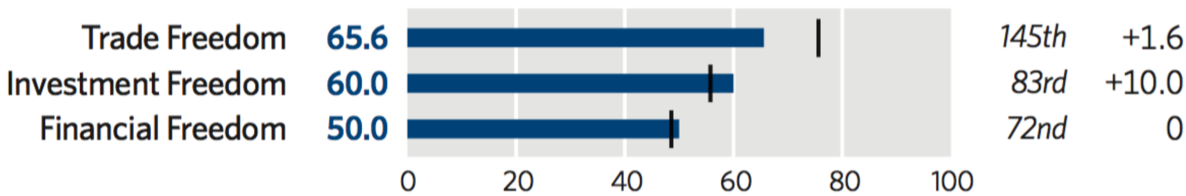
2) Government size



3) Regulatory efficiency



4) Open markets



Appendix B: Example of Question Guide for Entrepreneurs

Category	Questions
Background	Could you tell us a bit about your background? • Education • Work • Road to current position/company?
Experience with starting a new business	Story of the business? • When did you found it? • How many employees? • Role within the business • Main responsibilities • Competition • Future vision
Kenyan start-up landscape	Strength / Weaknesses • Link between different actors • Support services • Funding • Human capital • Markets Is finding and exploiting opportunities possible?
Institutional actors	How do you perceive the quality of the institutional actors? Rule of law • Property rights protected • Corruption Regulatory environment • Starting a business • Level of complexity Market openness • Trade freedom How do you think the government should support entrepreneurs? Is entrepreneurship rewarded?
Cultural impact	How is being an entrepreneur perceived in Kenya? • Perception among family members and peers? • Influence on the entrepreneur
Thoughts for the future	How do you perceive the future state for running and starting a business in Kenya? • Potential opportunities and challenges • Where is Kenya heading? • Who is responsible for change?
Further questions for us?	Do you have any further questions for us?

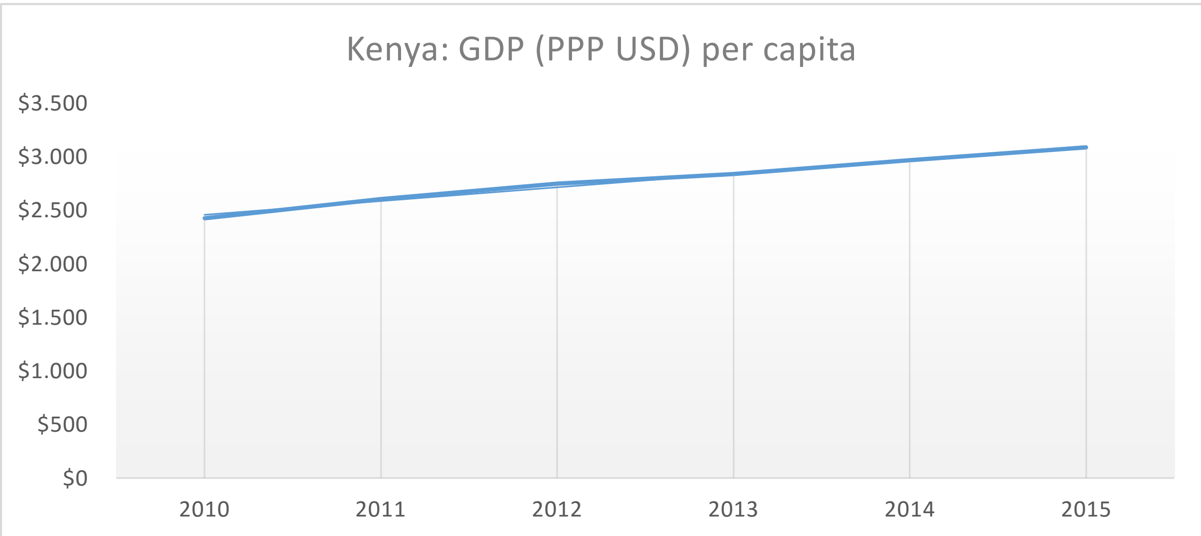
Appendix C: Interview Data

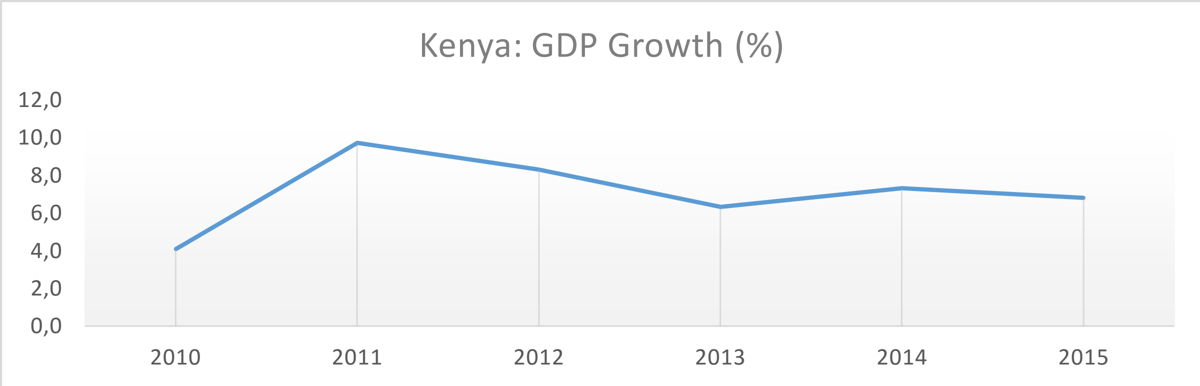
Please find the audio recordings on the attached USB.

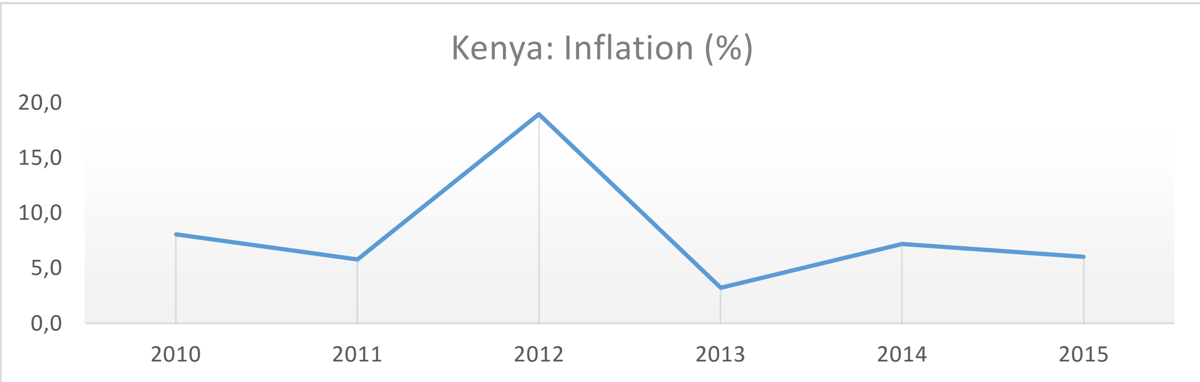
Appendix D: Key Macroeconomic Numbers for Kenya

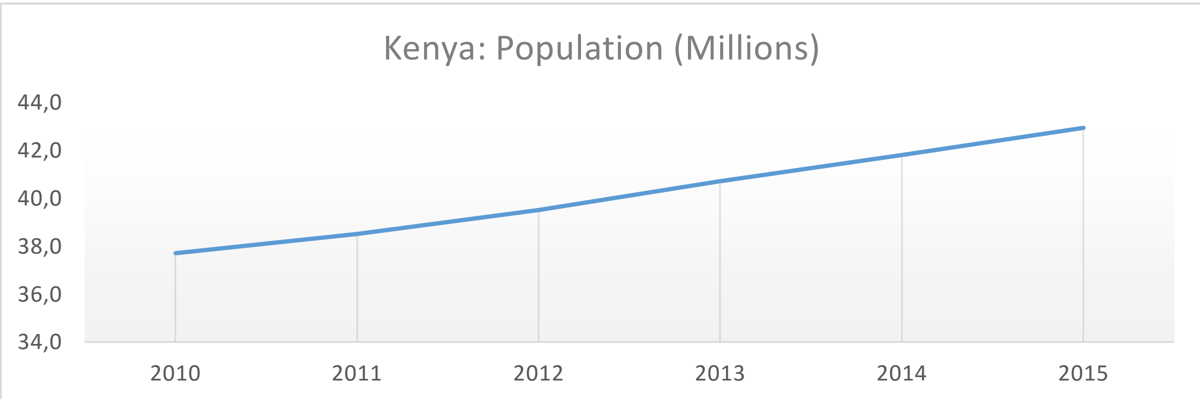
Measure	2010	2011	2012	2013	2014	2015
GDP (PPP Billions USD)	$91,4	$100,3	$108,6	$115,5	$124,0	$132,4
Population (Millions)	37,7	38,5	39,5	40,7	41,8	42,9
GDP Growth (%)	4,1	9,7	8,3	6,3	7,3	6,8
5 Year GDP Growth (%)	4,9%	5,1%	4,8%	5,6%	6,3%	5,7%
GDP (PPP USD) per capita	$2.425	$2.605	$2.750	$2.838	$2.966	$3.084
Inflation (%)	8,0	5,8	18,9	3,2	7,1	6,0
FDI Inflows (Millions USD)	$103	$60	$43	$31	$75	N/A

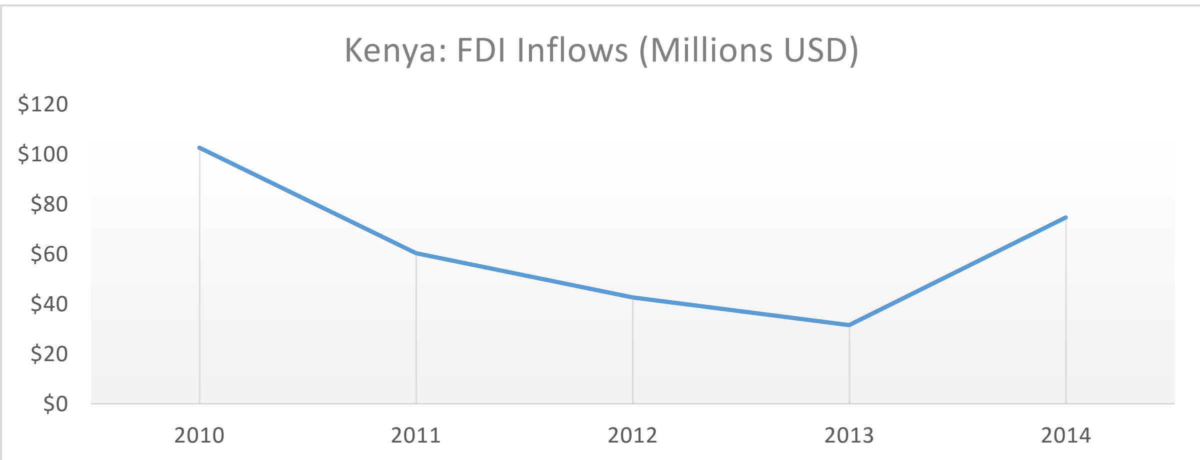
Appendix E: Graphs of Kenya's Economic Situation (since 2010)




Kenya: GDP Growth (%)
12,0
10,0
8,0
6,0
4,0
2,0
0,0
2010
2011
2012
2013
2014
2015


Kenya: Inflation (%)
20,0
15,0
10,0
5,0
0,0
2010
2011
2012
2013
2014
2015


Kenya: Population (Millions)
44,0
42,0
40,0
38,0
36,0
34,0
2010
2011
2012
2013
2014
2015


Kenya: FDI Inflows (Millions USD)
$120
$100
$80
$60
$40
$20
$0
2010
2011
2012
2013
2014

Appendix F: Overview of Interview Findings

Interviewees: Henrik Frøsig and Samuel Wathondu, IFU

Kenyan Government	Business Environment	Corruption	Entrepreneurial Ecosystem	Human Capital	Culture
Does not collaborate with the Kenyan government.	Interest in starting a business in Kenya has never been higher.	IFU has a non-acceptance policy towards corruption and as such not affected by it.	IFU disagrees that access to credit is a challenge (referring to larger companies).	The universities are top-class and everybody speaks English.	The Kenya culture is a major advantage. People are positive and wants to discuss business.
Access to government information is complicated.	Lack of land registration causing issues over property rights.	Corruption is an African problem not Kenyan.	The man on the street needs money and that is lacking.	Many doctors and nurses leave the country to pursue higher salaries.	
A large part of the budget has been spent on improving infrastructure.	Establishment of EPZ zones (tax free areas) has improved the easiness of starting a business.	Companies wanting to invest in Kenya know corruption is omnipresent.	If you are in the lower bracket of salary income, you do not break out.		
	90 percent of FDI takes place in Nairobi, thus not an issue with the established counties.	The culture of corruption is changing – slowly.			
	Infrastructure projects are financed and build by Chinese companies.	Government is regarded as proactively dealing with corruption.			
	The Chinese are not very well liked because they're seen as purely capitalists.				

INTERVIEWEE: ESTHER MUTHONI, EPTF

Kenyan Government	Business Environment	Corruption	Entrepreneurial Ecosystem	Human Capital	Culture
Access to funding from the government is possible when having established a group of individuals (savings group).	The government has established service centers that help entrepreneurs starting their business, however, funding is a big issue.	Human beings are basically corrupt. Some people appear to be less corrupt, but that is because they are in well-functioning systems.	The government does a lot of entrepreneurship training outside of school for people. Within school they train business courses, but it's too academic.	People coming out of school are not empowered and they do not believe in themselves – biggest problem.	In the culture there's a tendency to not scale their business, rather, people improve their own life with a bigger house, a better car, etc.
The politicians are trying right now to have the banks lower their interest rates.	The boys are no longer necessarily those that make the money. Increasingly woman do everything.	Corruption can be stopped by new technologies, in particular by using mobile payments and not carrying cash.		People have a lot of head knowledge but not that much practical knowledge.	People are used to save their money. They just don't put in the bank.
The government is particularly focusing on the youth and women and are setting up funds for women to apply for.	The Chinese are taking advantage of the loopholes to gain access to resources. However, things get done!	Corruption is so ingrained in the culture, that when people are stopped they don't even listen to what they police officer says, but hands him a bribe.		The education system is very exam-based and not very practical. Heavy emphasis on the pure academics (grades).	If someone "makes it", he also has to take care of his friends and family, obviously taking away his time and energy to spend on his own business.
Obtaining licenses as ordered by government is a big hassle for small businesses.	The new counties add more taxes and requirements. A disincentive for entrepreneurs.	Corruption has reached a level where something has to be done. People are fed up.			Many are just looking to start a business in order to survive. They do not have big aspirations.
Property rights are not enforced.	Small businesses try to avoid the banks. The banks are greedy.				

INTERVIEWEE: IAN LORENZEN, GROWTH AFRICA

Kenyan Government	Business Environment	Corruption	Entrepreneurial Ecosystem	Human Capital
Growth Africa has not worked with the government and this will not happen as long as it is the wrong people who are in place with their short term orientation of making a quick profit.	The workmanship is poor across most industries, yet no successful entrepreneurs are coming out of this space (painter, mechanic, hairdresser etc.).	Kenyans comply with small bribing in order to get things done faster, especially true for obtaining permits.	There is a lot of friendly competition, without any understanding of 'feeding' into another entity.	Entrepreneurs are not that interested in scaling their business. Rather they used profits to establish a better life – better car, better housing etc.
Investors typically help with minimizing the interactions with government. If the business works within the public sector, Growth Africa does not have much interest.	A lot of young people are attracted to Nairobi as the center of innovation in Africa.	Corruption is part of life.	The is no flow of input and output between different stakeholders in the ecosystem.	Students in Kenya are much younger when they graduate making it a lot harder to start a new business due to lack of experience.
	Believe that opportunities are to be exploited in any given industry.		Seed capital very scars. Investors prefer larger projects.	Kenyans are great entrepreneurs but horrible in the context of a group.
	Kenyan products have fairly good chances for the nearby markets like in Uganda and Tanzania.		Half of the applications are within advertisement and social media.	Analytical skills are not so enhanced, it is more about learning by heart rather than being creative.
	Difficulty in getting working and staying permits.		Biggest obstacles are access to finance, access to talent and team skills.	
			Most participants in Growth Africa is headhunted.	
			Most participants in Growth Africa is headhunted.	

INTERVIEWEE: LISBETH BEKKER, KISSINGER KARANU, ANTONI MUTEGI, AND DANIELA NYAKUYRUA, THE HUB EAST AFRICA

Kenyan Government	Business Environment	Corruption	Entrepreneurial Ecosystem	Human Capital	Culture
Entrepreneurs need to be in groups of 10 people in order to apply for government loans (max. 400$ min. 50$).	Gender issues still prevalent with women getting smaller contracting jobs like landscaping.	A vicious circle of 'bad' projects are getting funded because they paid the bribe.	Online communities and social media provide the platform for knowledge sharing and networking	Entrepreneurs concentrate only on the big money, jumping around different areas, but never put any effort into things.	Families and peers are discouraging entrepreneurship due to the influence caused by the rough times 20 years back.
People within the government are working against each other.	The devolution process has caused a lot of 'double payment' to both government and county.	Corruption is holding back government effort.	More opportunities in entrepreneurship than regular employment.	Entrepreneurship education is good for starting a business, but not for managing and scaling.	Culture towards the community – "the devil you know is better than the angle you don't know".
Activation of youth and women is a priority by the government.	Kenya is like a new born baby who didn't crawl, but just started walking.	Wheelbarrows being bought for 1000$.	Young entrepreneurs from groups, as a way to mitigate that they are alone.	Undergraduate loan must be paid before you can get a loan for the graduate degree.	Kenyans like to keep their options opens, even if a business fail, you keep it open.
The government wants a cut in all private matters.	The hassle of obtaining licenses is hurting business.	Corruption is inherent within the anticorruption unit.	Most of the bodies controlling entrepreneurs are very centralized.		Kenyans are very industrial. They copy each other which is not sustainable.
Government is excluded from the ecosystem.	Counties develop own policies that hurts business life.	Kenyans accept corruption because it benefits them.	Bootstrapping is the only way forward.		When people have financial success they keep it a secret from the family.
Government is not taking any risk.		Nyakuyrya admits that she in fact does bribe a lot.	Not much coordination between hubs.		Kenyans want to make quick money.
People vote for their tribal leader – problem!			Kenyans have no entrepreneurial framework.		

INTERVIEWEE: CHARLES MWANGI, AFRISCAN

Kenyan Government	Business Environment	Corruption	Entrepreneurial Ecosystem	Human Capital	Culture
Change in Kenya has to come from the government.	A single piece of land can have 5 different owners.	The different counties are the ones causing corrupt behavior and confusion.			People are beginning to speak up and voice the dissatisfaction.
Little to no perceived progress in the way counties spend money.	A lot to paper work to have in place, but once they have the correct documentation sale runs smoothly.	Corruption has become a way of doing business. Not recognized as bad behavior but more as a part of life.			
High amount of different taxes. Perceived as excessive.	Bank loans are extremely expensive. Discourages people to take any risk, and they tend to follow already safe business models.	Companies can benefit from using corruption.			
	Access to capital is the biggest issues.				

INTERVIEWEE: SITATI KIUYI, FRONTLINESMS (IHUB)

Kenyan Government	Business Environment	Corruption	Entrepreneurial Ecosystem	Human Capital	Culture
Government in Kenya is very corrupt and very ineffective.	Foreign vs domestic market focus is a 50/50 at iHub.	Corruption teaches people to live independent of the government.	The start-ups are not being truly innovative. They are just the first to market, copying what other countries did 10 years ago.	Challenging to find the right people. Bigger companies offer better salaries.	People understand corruption as a cost of doing business.
"New faces to steal more money".	Kenya is one of the leaders in tech and mobile marketing being the main one.	Despite the findings of natural resources, too much of the money disappears.			No shame in cheating, and people rarely leave their high positions when caught in corrupt affairs.
People do not depend on or expect anything from the government.	Infrastructure remains a big problem. Every day there is problems with the internet.	When corruption is discovered, it is still very rare that the guilty are prosecuted and punished.			
ICT allows people to start up their own business without much dependency on government.	Many things will have to be customized in order to work in the Kenyan market.	People are outraged at the government, but they all take part of the bribery themselves.			
Greediness by government scares investors away.	With respect to licenses: "They come in and hope that they can somehow corner you so that you will have to pay a bribe".				
	High interest rate + high inflation = losing money by having them in the bank.				