
Cultural Factors Affecting Entrepreneurship and Development in the Informal Economy in Ghana

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In recent years there has been much discussion of informal economic activity in Third World countries, and its importance as a source of employment and possibly of growth.¹ The actual potential for growth, however, and the implications this would have for class formation within the informal sector, remains problematic and relatively unexplored.

In theory it is possible to imagine an informal sector which is more or less static, containing little or no capacity for change or development. MacPherson's model of a 'simple market society' where numerous buyers and sellers compete to exchange the products of their work, but no one is prepared to sell his labour is a not wholly unworkable model.² There are, though, good practical reasons for expecting change and development to take place. Despite their manifest virtues small enterprises are not exempt from the laws of economics or the pressures of capitalist competition. Some entrepreneurs, however small, are likely to be more efficient than others and this may result in differential growth rates as between enterprises. As more workers are taken on, differences of interest are likely to occur in employer/worker relations. Modest success may lead an entrepreneur to be concerned with growth, whereas previously he was only concerned to make a 'living'. This in turn, may heighten his awareness of competition as a problem, and he may become drawn inexorably into the dynamics of capitalist competition.

Of the many factors that affect the potential for an informal sector to move out of the static state, two stand out. The first is the dynamism of the modern sector and the extent to which the wealth either created in that sector, or syphoned off by it from the rural economy, has "spread" effects—operating through the redistributive mechanisms inherent in theft, petty trade, domestic service, artisan activities, vice and so on. This dynamism, of course, is very much a function of the world economy: a deterioration in terms of trade may much reduce it (a factor very relevant in the case

of Ghana), and so on. Secondly, there are the limitations and constraints that result from prevailing arrangements in the social structure and culture. These affect the supply and the kind of entrepreneurs available as well as the obstacles they face. It is this second set of factors that the present article intends to explore.

The discussion that follows is based on the findings of a study carried out by the author in Ghana in 1968-70. This focused mainly on manufacturing enterprises (although some contractors and traders were included) which had a definite firm organisation and employed at least two or three 'permanent staff'.³ The sample of firms that fell within this category varied enormously in terms of size, technology and organization, even within the same industry. More than half of them—some employing only a few workers, others with 10 or even as many as 30—used labour-intensive production strategies characteristic of the informal sector. The other firms approximated in varying degrees the level of capital intensity and the pattern of market outlets found in the large state/foreign companies in the formal sector. However, the majority of entrepreneurs from both groups had begun in business with very small amounts of capital and in the early stages they had employed very few people, if any. Most began as fitters, cabinet makers, tailors, small traders, lorry owners, sub-contractors and so on.

The Constraints of Culture

There are a number of constraints affecting economic decision making and development in the informal sector that are partly institutional or cultural in nature.

1. First, there is the general cultural environment of enterprise that businessmen cannot alter in the short-run either individually or collectively.
2. Secondly, there are the forces which shape the entrepreneurs themselves. Are the patterns of child rearing and education such as to produce *enough* people, capable of circumventing at least some of the constraints above mentioned and so to overcome the technical and organizational difficulties intrinsic to certain kinds of economic activity.

¹ See for example, K. Hart, "Informal Income Opportunities and Urban Employment in Ghana", *Journal of Development Studies*, Vol. II, No. 1, 1973.

² C. B. MacPherson, "Models of Society", in T. Burns (ed.) *Industrial Man*, Harmondsworth, Penguin, 1969.

³ *Some patterns of indigenous business enterprise in Ghana*, unpublished PhD thesis, Birmingham University, 1974.

1. The cultural environment.

Perhaps the most important institutional and cultural constraints are the following:

(a) The demands of kinship and community may effectively weaken the capacity of entrepreneurs to accumulate capital, to arrange their economic activities in a rational manner, and to give priority in the use of their time and energy to economic rather than social activities. These pressures are likely to be more difficult to resist in rural areas,⁴ or when the entrepreneur belongs to a close-knit group in an urban situation whose members have supplied much of the capital, the workforce, and the market upon which the enterprise depends.⁵

(b) The market demand open to him is also in part a matter of culture. Even at similar levels of technology and resource endowment, there can be differences in the extent to which the preference for family self-subsistence has given way to the division of labour, thereby creating market opportunities and the willingness to indulge in consumption rather than saving or social investment. Closely related to this is a further question:

(c) How willing are people both to offer themselves as employees on a fairly regular basis (or to be prepared to enter agreements with friends or kinsmen with a view to establishing cooperative ventures) and to accept certain rules and possibly an element of impersonality while working for others.

Culture and structure: interplay and reinforcement. But, when one talks of cultural constraints, one should emphasise that the continuing pervasiveness of these institutional constraints and normative preferences in the informal sector cannot be understood solely in terms of the endemic survival capacity of such pre-capitalist elements as ethnic, kinship and community loyalties or the tradition of economic independence within the context of family and lineage reciprocity. Their continuing prevalence is also a reflection and a consequence of the economic realities of a modern sector within a dependent Third World economy. This can be seen very clearly in the case of the last element mentioned—the desire for economic independence and self-employment.

The desire to 'be your own boss' is very strong in Ghana, especially among manual workers. The latter are effectively precluded from competing

for the relatively secure and prestigious jobs in white collar employment and the professions by virtue of the fact that dependent economies tend to take over the educational qualification barriers for entry to those jobs and their lack of those qualifications denies them access. Alternatively they have the required qualifications, but by the time they arrive on the job market all the available positions are filled, or jobs have been rationed by the raising of qualification levels in the meanwhile. Manual workers see self-employment not only as a means to valued independence but also as their only chance of earning 'big man' status through material wealth. The desire to be beholden and subservient to no one and, instead, to be a source of livelihood for others (a chief, perhaps, in an urban setting) was the reason most of the businessmen I studied in 1968-70 gave for their decision to leave regular employment and branch out on their own. Similarly, Peace found in Nigeria that even relatively well paid workers with a fairly long experience of working in large, capital-intensive factories in the modern sector of the economy showed a strong preference for an independent business career.⁶ One reason for the strong support they gave to their unions and for the high level of militancy they sometimes showed was their desire to use the savings from high wage returns in order to obtain the starting capital for their own businesses.

A good many of the entrepreneurs in the Ghana survey had once had jobs as employees in the modern sector. They had made a deliberate choice to give them up in order to start in business. In their case what gave additional impetus to the 'traditional' cultural drive for economic independence was the frustration, not so much of unemployment, as of poor promotion prospects—usually because their educational and technical qualifications were of too low a level to permit further advancement. In today's African cities, however, the majority of the urban poor do not usually enjoy the luxury of this kind of opportunity-cost analysis. The force that propels them towards self-employment is economic necessity. Culture preference is reinforced by the nature and pace of economic change in a double sense.

First, the low employment-generating capacity of modern technology (exacerbated in Ghana's case by faltering consumer demand following a fall in cocoa export prices) has meant a failure to absorb the growing volume of migrants to the cities. There are not enough jobs for educated young Ghanaians in the formal sector organised labour

⁴ For example, N. Long, *Social Change and the Individual*, Manchester University Press, 1968. Also, R. Lawson, "Innovation and growth in traditional agriculture of the Lower Volta, Ghana", *Journal of Development Studies*, Vol. 4, No. 1, 1967.

⁵ This is shown in K. Hart's unpublished PhD thesis, *Entrepreneurs and migrants: a study of modernization among the Frafra of Ghana*, Cambridge, 1969.

⁶ A. Peace, "Industrial Protest in Nigeria", in E. de Kadt and G. Williams (eds.), *Sociology and Development*, Tavistock Publications, London, 1972.

force. The resulting conditions of job insecurity and acute urban unemployment (made worse by severe inflation) have given a new impetus to the pre-capitalist cultural emphasis on individual economic independence. Both those who hold jobs in the formal sector, but whose wages are too low to cover subsistence needs, and those who cannot secure such jobs, are compelled to seek multifarious income opportunities within the informal sector—usually as self-employed workers. The same economic pressures have also given a new meaning to ethnic, community and kinship ties, since these provide a source of periodic help when other sources of income fail.

Secondly, the Western pattern of development involved a gradual but continuous process of proletarianization—a re-constitution of the factors of production away from their deployment in numerous small units. This fundamental social revolution made it possible to achieve enormous increases in productivity through the reorganization of production, the investment in technologies that were only practicable on a large scale and so on. Despite the preference that many Western peasants and artisans probably had for independence they accepted proletarianization because the dynamism of the capitalist economy both undermined their capacity to survive—as small producers in competition with large firms and complex technologies—and increased the desirability of employment as wage levels rose. Eventually, a population emerged committed and socialized to accept employee status. In Third World countries like Ghana, by contrast, the condition of economic dependency limits the pace and extent of economic development. This not only prevents those who might otherwise accept employee status from being fully absorbed, compelling them to engage in informal activity, but it also means that many urban residents are 'sheltered' from the rupture involved in extensive proletarianization so that the habit of independence is strengthened.

Thus, both culture and economic necessity perpetuate and generate petty bourgeois independence. This makes it difficult for would-be entrepreneurs to secure permanent employees willing to accept certain work disciplines. This difficulty is heightened by the low wages that tend to be typical of small local enterprise and by the ease with which those who possess the necessary skills can set up in either full or part time business by themselves. Many of the smaller manufacturers studied in Ghana, whose firms were labour- rather than capital-intensive and who therefore relied heavily on the availability of a few skilled workers, complained bitterly about the problems of securing the long-term loyalty and cooperation of

employees. Workers, they said, would often leave soon after receiving a lengthy training in order to start up their own business—and in the same line of production, too, so that they not only lost their training investment but added to their own competition. Other workers, especially highly skilled craftsmen, would not offer themselves for anything except short-term contracts to which they would perhaps bring at least some of their own tools. Having completed a given job they might move on to another employer prepared to pay more for their services. The quasi-independence shown by such workers—in Marxist terms their incomplete separation from the means of production—hampered the entrepreneurs. It was not easy for them to place such workers into a wider long-term production system under their own complete control which would enable them to claim that the rewards resulting from *their* efforts to organise production belonged by right to *them*. Moreover, the high wages that may accrue to skilled craftsmen during a period of economic boom represented a proportion of profit that might otherwise have gone to the owners of capital.

In order to overcome these dilemmas some of the businessmen in the study tried to reduce their dependence on craftsmen by replacing them, as far as possible, with semi-skilled workers whose training was relatively brief, easily obtained and less likely to equip such workers with the ability to "corner" the labour market on their own terms. This, in turn, required investment in machines that could extend the technical competence available to the firm as well as building-in the special skills of expensive craftsmen. A number of proprietors declared their intention to invest in machinery for precisely these reasons.

This analysis would seem to indicate that there are certain tensions present in the informal sector. Thus, one of its chief virtues—low capital requirements and easy entry—may create problems of competition and labour instability for the more dynamic entrepreneurs at work there. These, in turn, may either drive them out of the sector altogether or severely restrain them from generating new wealth through greater productivity, beyond a certain point.

2. The supply of entrepreneurs

The problem of entrepreneurship in the informal sector is not one of quantity but of quality. The nature of the constraints described above in part determine the kinds of skills entrepreneurs need in order to achieve a modest degree of efficiency and expansion. Some kinds of social origins and some sorts of life experience are more likely to produce those skills—and the values and motiva-

tions and perceptions which support and develop them—than others. For example:

(a) Men who are less susceptible to the claims of kin and community on their time and money may stand a better chance to accumulate capital and rationalise their firms' operations than those for whom such bonds are overwhelming and unavoidable. Perhaps because of the uneven impact and pace of modernization in different areas during the earlier period of Western contact, members of some ethnic groups seem more likely to resist these claims than others: more of them are likely to have had relatively prosperous parents and access to educational and vocational opportunities. Long experience of the wider loyalties, greater opportunities and alternative role models offered by a thoroughly urban milieu may also be important. These factors (inter-related since the more 'advanced' ethnic groups are also more urban) may weaken the attachment of entrepreneurs to primary groups by reducing (although not removing) their dependence on the latter for help or social support while the generally higher level of property ownership and/or job security among these groups may simultaneously help to reduce their need or desire to impose crippling burdens on successful members. As for urbanism, over half (51 percent) of the entrepreneurs studied in Ghana had lived for all or most of their childhood in urban centres with a population (in the 1960 census) of 50,000 or more. In the 1930s, 40s and 50s, when they were growing up these towns were somewhat smaller, but so too was the proportion of the population living in urban areas (8 per cent in 1960). Another 22 percent had grown up in sizeable towns of between 10,000 to 50,000—compared with 9 percent of the total population.

These same background factors can, perhaps, also help to free entrepreneurs from the demands made by employees. It is less likely that they will be obligated to friends and kinsmen for help in setting up the firm and hence under less pressure to obtain employees from these sources. The ability to create social distance, whether through the impersonality characteristic of the West or through an authoritarian paternalism or both, must be an advantage for any employer.

(b) Also crucial is the question of the particular field of business enterprise which is selected and the amount of competition that accordingly has to be faced. This is partly a matter of good judgement but it depends also on what 'resources' are required. Some fields have more severe minimum-entry requirements and are therefore less open to many competitors. Almost anyone can be a petty trader, a launderer or bar keeper, but many activities demand at least a minimum of skill acquired

over a fairly long period and probably at some cost.

(c) Any attempt to go beyond self-employment and establish a firm organization, however small, may require additional 'resources'. The 1968-70 Ghana sample (biased towards entrepreneurs in relatively difficult fields who had employees) contained many people who (in the 1940s, 50s and early 60s, when they moved into self-employment) had possessed relatively scarce 'resources'. These initial advantages had enabled them to surmount the kind of barriers just discussed. Among these advantages were the following: a small amount of savings (although this was not absolutely essential); membership in a social network consisting of local and possibly foreign contacts who could supply access to credit, information, technical help and so on; a degree of expertise in technical financial, administrative or marketing matters. Some of them also had a stronger than average motivation to seek success in the economic sphere, due to a greater awareness than most other people of the opportunities that existed coupled with a sense of frustration at being barred from access to the respectable channels for success in the civil service, professions or higher levels of management.

(d) Good timing is also important for success. Those who, by virtue of their shrewd perception, their membership of a particular age cohort, luck, or previous occupational experience, are 'available' and 'equipped' to enter the field at a time when market opportunities are favourable, and/or when there are few eligible candidates for entrepreneurship in a given field, may be able to corner a section of the market in a way that is much more difficult for latecomers.

Certain aspects of their social backgrounds seem to have been particularly important in providing the Ghanaian entrepreneurs with the necessary 'resources' for solving these problems. Thus, they tended to be rather better educated than the majority of people in their age cohort—most had received some primary schooling—but few had gone on to secondary school and were therefore unable to seek the better paid jobs in the state/foreign corporations. They were mostly from lower-middle class backgrounds; their parents tended to be cash-crop farmers, small traders, clerks, policemen and so on. While their position in the emerging class system made them relatively familiar with the transactions characteristic of commerce and the modern sector and also the advantages of modest prosperity—thereby raising their aspirations—it did not equip them to obtain the highest positions in society among the elite. Both educational experience and class position

worked to generate a sense of vocational frustration. In addition, their own training and occupational experiences prior to self-employment tended to provide them with technical and practical knowledge (sometimes to a reasonably high level), with administrative/commercial skills, or a combination of these. Finally, a reasonable level of family prosperity sometimes resulted in the inheritance of a small legacy or in the chance to save a little money.

Conclusion

The informal sector is, in many respects, a training ground for a great many entrepreneurs who eventually develop quite large firms. The owners of such firms may continue to run them along lines characteristic of the informal sector despite their size or they may increasingly move into areas and adopt styles of enterprise that are much more typical of the formal sector. Some of those who enlarge their firms can be regarded as intermediaries who bridge both the formal and informal sectors. This is so not only because their roots often lie in the latter but also because even firms with a fundamentally modern orientation to production are likely to have links with people in the informal sector (for example: market traders, suppliers, outworkers, sub-contractors, black marketeers, transporters, unskilled workers, sellers of ready cooked foods, and so on) that are just as crucial for their enterprise as those they must maintain with government officials, banks and large commercial organizations at home and abroad. The informal sector also includes of course, and may increasingly include, a number of individuals,

well endowed with 'resources', whose enterprises are and remain orientated towards the market demand and labour found there—since their resources are not sufficient to allow them to compete with firms in the formal sector.

Even these, however, and *a fortiori* those who expand to formal sector status, are relatively 'privileged' compared to the majority of the self-employed. This is because their social origins (a) allow them to operate in fields that are inaccessible to the majority, given the minimum entry requirements that have to be fulfilled, (b) enable them to operate as independent entrepreneurs by choice rather than through economic necessity, (c) equip them to overcome the cultural and institutional obstacles to large-scale enterprise that tend to predominate in the informal sector.

Their 'privilege', in other words, is partly a matter of cultural differences—motivations, attitudes, the role definitions current within social groups—partly a matter of differential endowments of material resources and, for example, educational opportunities—features which would usually be described as structural. Likewise the constraints under which they operate are partly structural ones of a kind which economists conventionally handle, but partly stem from the particular culturally conditioned behavioural dispositions of the people with whom they have to deal. But the latter, too, are not *just* traditional legacies. They can be modified—and reinforced—by features of the economic structure characteristic of the dependent economies of the Third World.