

Capability, social capital and opportunity-driven graduate entrepreneurship in Tanzania

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Abstract

Purpose – The purpose of this paper is to gain insight into the reasons why most Tanzanian graduates do not consider entrepreneurship as an attractive career option despite dire labor market conditions, while a small number of them are able to benefit from local opportunities.

Design/methodology/approach – Utilizing insights from capability and social capital perspectives, a qualitative investigation based on interviews, group discussions and document analysis was undertaken to explore how this phenomenon can be explained and remedied.

Findings – This study shows that many graduates value entrepreneurship as a potential career but many find their way to be act upon these aspirations blocked. Indeed, actual entrepreneurial capability is only available to a minority of graduates with access to powerful connections who are able to benefit from technological and financial conversion factors. Most graduates cannot benefit from these conversion factors due to the lack of the necessary social capital to break through to the legal, tax, financial and cultural systems. Hence, the authors argue that social capital itself is actually a critical conversion factor toward developing entrepreneurial capability.

Research limitations/implications – The insight formulated in this study are based on a qualitative analysis of the Tanzanian context and formulated specifically for this particular context. At the same time, the country shares many characteristics with other countries in Africa, many of which are struggling to move toward a more entrepreneurial society. Hence, the recommendations may partially be transferable beyond the specific Tanzanian situation. Theoretically, the notion that social capital should be considered as a key conversion factor enabling aspiring entrepreneurs in translating valued functionings into actualized functionings and thus toward enhancing entrepreneurial capability opens up novel avenues for empirical research into how entrepreneurship can be stimulated.

Social implications – This study searches for conversion factors from the actual “functioning” toward the real “capability” allowing to succeed as a new graduate and find that social capital itself might act as the critical conversion factor. That brings the authors to the recommendations for policy makers, educators and media, argued in such a way that the entrepreneurial capability of young graduates and their ability to tap into relevant social capital can be enhanced.

Originality/value – The combination and integration of the Sen's capability approach with social capital perspectives offers a novel way to explain difference in responses to the Tanzanian institutions and their ability to act upon a valued functioning such as opportunity-driven entrepreneurship.

Keywords Entrepreneurship, Social capital, Tanzania, Capability approach, Conversion factors

Paper type Research paper

Introduction

In Tanzania, annually, about 700,000 graduates enter the labor market but only 40,000 of them find jobs at the government or established companies despite this being their preferred place of work (Ngalomba, 2013). The rest of them continue their education, find a low-profiled temporary job or enter into the informal sector. Despite significant government attempts to boost graduate entrepreneurship, and the introduction of entrepreneurship education at university level (Mwasalwiba, 2012; Weiss, 2015), few graduates actually embark on an entrepreneurial path. While this problem is not unique to the Tanzanian context,



the country's economic-political history of the Ujaama (or African socialism) seems to amplify the problems (DeJaeghere, 2013) making Tanzania a suitable case for investigation.

Hence, this study questions why Tanzanian graduates do not engage in entrepreneurial careers even in the face of a lack of alternative career opportunities. Do they now want to become entrepreneurs, and if so why? Is it for a lack of opportunities present in the Tanzanian market? Is there a lack of motivation to build their own venture? Or are they inhibited by certain factors when seeking to pursue entrepreneurial opportunities? Previous studies have addressed this issue by pointing to the ill-functioning economic infrastructure that complicates entrepreneurial activity or by referring to the status and stability that comes with a government job. Clearly, these factors play a major role in explaining the overall low levels of entrepreneurial activities. Yet, they do not paint the complete picture. Despite generally low levels of graduate entrepreneurship, there has been a recent rise in the number of startups by young graduates in sectors like renewable energies, ICT, digital media, digital marketing functioning and service industries (Kabanda and Brown, 2015). The question thus becomes how we can explain such different responses to the same institutions by young graduates. Specifically, a qualitative inquiry is conducted based on a combination of personal interviews, group discussions and document reviews to gain insights into these questions. Accordingly, this study contributes to the debate about opportunity-driven entrepreneurship incidence in developing economies. It argues and shows that many graduates value entrepreneurship as a potential career for them but many of them expect or actually find their way to be act upon these aspirations blocked. Combining Sen's capability approach (Sen, 1980, 1990, 2005; Nussbaum, 2003) with a social capital perspective (Adler and Kwon, 2002; Kwon and Adler, 2014; Lin, 1999) allows for developing a deeper insight into why this is the case. As shown in the Findings section, actual capability to engage in entrepreneurship is currently available only to a small set of young Tanzanians who utilize their agency and have the appropriate social capital. This small group has been able to benefit from conversion factors like access to mobile and online information and communication facilities, the entry of (foreign) venture capitalists and incubators. Yet, the collected data also lead to the conclusion that most graduates are deprived from a real entrepreneurship capability. Their agency is limited and they cannot benefit from the above-mentioned conversion factors for lack of the necessary social capital that enables them to break through to the legal, tax, financial and cultural systems that continues to favor large-established local and multinationals firms, thus explaining the low entrepreneurship incidence. Hence, besides contributing to the literature on entrepreneurship incidence by showing how entrepreneurial function is blocked for most graduates, this study also contributes to the capability literature by presenting social capital as a key conversion factor that enables aspiring entrepreneurs to translate valued functionings into actual functionings and thus enhance entrepreneurial capability. Following these findings, a number of policy recommendations are formulated.

Entrepreneurship in Tanzania

Historical developments

In colonial times, business focused around German and later British entrepreneurs and investors in commodities, plantations and processing industries. Public policy focused on setting up rail links and ports to export goods from Tanganyika.

Immediately after the political merger of Tanganyika and Zanzibar, the socialist era was declared in the new republic of Tanzania. Since the "Arusha Declaration," the government acted as an investor, took over, controlled and checked the entire industry (Ngowi, 2009). Import substitution became official trade policy, and foreign actors mainly refocused on the

sale of capital goods. State enterprises delivered low-quality goods at high prices and corruption was rife. The creation of formal enterprises by local Africans was not a policy issue. However, a strong entrepreneurial spirit developed in the margin of the official economy. Thousands small businesses started or continued trade, off limits from the socialist policies, in the informal sector (Lugalla, 1997; Tripp, 1989).

In the 1980s, structural adjustment policies were imposed by IMF and the World Bank, including an end to import substitution and the introduction of liberal market-oriented policies. Public companies were privatized; Arab and Indian families and other wealthy investors with roots outside Tanzania but with Tanzanian nationality, acquired many enterprises (Mwasalwiba *et al.*, 2012). Later, Chinese investors came in. To this day, this ownership and control situation is prevalent.

As the economic policies advanced to neoliberalism, multinational companies arrived. Consumer and construction sectors, export-oriented modern agribusiness, gold and minerals, high-end tourism, banking, etc. came gradually under the control of strong groups who sought the best managers – often foreigners. To this day, it seems that competition from local startups is not necessarily perceived as being in their own interest and in some instance these multinationals are using their power to actually block promising new startups (Hansen *et al.*, 2016; Mutalemwa, 2015). Strong economic groups like Bakhresa, Sumaria, the MacGroup, Motisum Holdings and METL (Sutton and Olomi (2012) have built up highly diversified firms holding and seeking to maintain privileges and guarantees that stem from their competitive advantage, economic power and connections to the dominant political elite. Young Africans have a difficult time to penetrate, join, overrule or beat these clubs and they do not believe that they can claim the same chances to succeed as these powerful groups. Consequently, some argue that they turn to the informal sector where entrepreneurship has always been vibrant in Tanzania although offering few opportunities for sustainable growth (Eijdenberg, 2016).

Conceptual framework

Scholars have differentiated between necessity or subsistence-driven and opportunity-driven entrepreneurship (Bosma and Harding, 2007). Necessity-driven entrepreneurs are pushed into enterprising activities because all alternative options for work and income generation are absent or unsatisfactory. Alternatively, opportunity-driven entrepreneurship follows individual's personal desire and choice to exploit a particular opportunity and seek self-actualization (Smallbone and Welter, 2001). While entrepreneurship, in developing countries like Tanzania, is often understood primarily as necessity entrepreneurship, this particular study focuses on opportunity-driven entrepreneurship. Traditionally, scholars have attributed the difficulty to develop a fully functioning opportunity-driven entrepreneurial ecosystem in Tanzania to the poorly functioning institutional context. In line with Baumol's (1990) arguments that a country's institutional framework determines whether productive, unproductive or even destructive entrepreneurial activities will take place, the authors have suggested that overcomplicated paperwork (Haselip *et al.*, 2015) and a non-supportive financial sector (Marwa, 2014; Mwasalwiba *et al.*, 2012) are keeping young graduates from engaging in entrepreneurial activities. While valid, these institutional arguments do not fully explain why the majority of graduates continue to struggle while some are obviously able to overcome these constraints.

Hence, a combination of the capability and social capital approaches is used to examine the different responses of young graduates to Tanzania's formal and informal institutions and networks. A combined perspective is necessary as this study seeks to answer questions regarding graduates' ability to freely conduct and achieve (capabilities and functioning) entrepreneurship as a valued activity, which may further be shaped by the social networks in which these graduates are embedded.

Capability approach

In his seminal works on poverty reduction and human rights development, Sen (1980, 1990, 2005) contended that the economic well-being of the poor is better understood through their capabilities, or what individuals are actually able to do or be(come), rather than through more traditional economic concepts, like choice or resource availability. In *The Idea of Justice*, Sen (2009) defines capability as “the power to do something.” The resulting capability approach suggests that deprivation of capability occurs when someone has the capacity (talents, training, and experience, motivation) that would normally allow him to become, for instance, an entrepreneur, yet finds the way toward success blocked on a fundamental level. Functionings are the effective actions and activities that they want to engage in. Taken together, functionings like working, being educated, being healthy, constitute what makes a life valuable. According to Sen (1980), the distinction between functionings and capabilities is between achievements on the one hand, and freedoms or valuable options (power) from which one can choose on the other. In this sense, the capability theory constitutes a perspective that puts individual’s actual ambitions and desires and the right to achieve the central stage. The concept of agency is closely related to this discussion. Agency, here, refers to a person’s motivation to act. Deprivation of capability implies that motivation to act does not come forward or disappears quickly. Further, personal attributes of individuals lead to different capabilities under the same circumstances. Analogue to Sen’s (1980) example of how an individual in a wheelchair requires more mobility-related resources compared to a healthy individual, a Tanzanian graduate whose parents are teachers or farmers even when being equipped with the same formal education and levels of intelligence needs more support toward embarking on an entrepreneurial path compared to the one who grew up in a family business with many established ties to the government.

An important characteristic of Sen’s work is its lack of specificity regarding which capabilities should be taken into account, or how different capabilities should be aggregated in an overall assessment of an individual’s well-being. In this respect, he differs from Nussbaum (2003) who has drawn up a list of ten capabilities that all human beings are entitled to[1]. Being formulated at a highly abstract level, Nussbaum (2000) argues that while universally valid, these ten capabilities can be translated, so they can become culturally and contextually specified. Engaging in opportunity-driven entrepreneurship is one such translation of what the author calls having control over one’s environment in the sense of being able to find or create employment and accumulate wealth. Opportunity-driven entrepreneurship is furthermore closely linked to the fundamental capability to be self-expressive through senses, imagination and thought. Accordingly, opportunity-driven entrepreneurship can be seen as a fundamental capability that every individual should be entitled to act upon (Gries and Naudé, 2011). Seen from a capability perspective, whether or not an individual seeks to pursue an entrepreneurial career will depend on the factors like access to resources, opportunities, personal abilities, aspirations, institutional context and personal agency (Gries and Naudé, 2011) but should first and foremost be a personal choice rather than be determined by others.

So far, the capability approach has mainly been applied conceptually while empirical investigations are scarce and operational measures to support such empirical investigations are lacking. To date, in the Tanzanian context, the capability approach has been applied in an education context (Tikly and Barrett, 2011; Tao, 2010) and in a study on poverty reduction in the slums of Dar es Salaam (Lindeman, 2012). Following calls from Nussbaum (2003) and Robeyns (2005), Tao (2010) attempts to identify and select relevant capabilities for both students and lecturers that are situated around the well-being and agency in schools. However, the author does not differentiate between ideal and pragmatic capabilities nor does she actually test whether these capabilities are effectuated in real class-room interventions. Lindeman (2012) used an ethnographic methodology in the slums of

Dar es Salaam, to show how functionings can be studied empirically as practices. Notably, the author points to the importance of external support for individuals to be able to recognize and act upon their capabilities and highlights the importance of having access to relevant devices, such as a bank account, mobile phones or internet access to translate these into functionings. Such aspects are considered equally important in the context of entrepreneurship, and hence inform our empirical investigation.

Social capital

In comparison to the capabilities approach, social capital approaches are more established within the domain of entrepreneurship research (Gedajlovic *et al.*, 2013). Whereas the capability approach focuses largely on the individual, the social capital approach stresses the notion of embeddedness. In short, social capital approaches explain both the engagement and success in entrepreneurial activities on the basis of differences in the range and quality of resources that individuals can obtain access to via the actors with whom they are connected. In particular, the social capital embedded in their social networks provide entrepreneurs with access to ideas, information, resources, moral support and legitimacy that would otherwise be unattainable or at a much lower cost or higher speed than in the market (Liao and Welsch, 2005; Ostgaard and Birley, 1996). These benefits are either obtained through the establishment of direct dyadic relationships to other individuals or they stem from group membership such as belonging to the same ethnic group (Olomi, 2009; Mashenene *et al.*, 2014), or from having been educated at the same school (Hite and Hesterly, 2001; Hite, 2005; Zimmer and Aldrich, 1987).

Social networks also provides nascent entrepreneurs with access to role models and behavioral templates; studies have shown how the presence of role models play a critical part in the development of entrepreneurial intentions (Liñán and Santos, 2007; Bosma *et al.*, 2012). Similarity between role model and follower is important in this respect. The literature shows that young people typically pick role models from their own socio-cultural group (Lockwood and Kunda, 1997). The presence of such similar entrepreneurial role models signals that entrepreneurship is a favorable career option and hence reduces the uncertainty that a prospective entrepreneur faces. As such, the presence of role models that are alike and to which they are connected is an important source of social capital for young graduates. Alternatively, when the social networks in which graduates are embedded disprove of entrepreneurs as a career choice, this will create negative social capital: not only may these network members choose to withhold active support and resources from those who do seek to establish their own enterprise they may also drain prospective entrepreneur emotionally by constantly questioning their aspirations. This effect is particularly apparent in the context of strong ties such as friends, family members or local communities.

Several recent empirical studies have assessed the presence and effect of social capital of Tanzanian entrepreneurs (Narayan and Pritchett, 1999; Rutashobya *et al.*, 2009; Milanzi, 2012; Tundui and Tundui, 2013). Milanzi (2012), for instance, found that entrepreneurs with relatively more strong and or institutional ties are better able to overcome export barriers and concluded that the composition and quality of the relationships proved more important than network size yet they do not explain specifically how this works. Likewise, Tundui and Tundui (2013) showed that especially bridging social capital affected the profitability of women-owned businesses thus suggesting it is important for these entrepreneurs to establish linkages beyond their immediate local environment. Alternatively, Gamba (2017) recently showed that the level of trust, collective action and information sharing Tanzanian trade associations are significantly lower compared to the similar associations in Rwanda. While it is unclear to what extent these findings would be extendable to other business associations, the implication of these findings might be that Tanzanian entrepreneurs are benefiting insufficiently from existing network structures.

Few studies have been conducted on the presence and importance of entrepreneurial role models in Tanzanian society. Yet, a recent field experiment involving over 2,000 Tanzanian secondary school students, provided evidence that viewing entrepreneurship edutainment increased entrepreneurial aspirations and actual entrepreneurial activity (particularly female) viewers who considered the real-life entrepreneurs shown in the program as role models (Bjorvatn *et al.*, 2015). Unfortunately, a negative effect on school attendance and performance was also observed, with some students also quoting that the role models they viewed also did not attend or finish school.

Methodology

The qualitative nature of the research question prompted to conduct an interpretive qualitative research (Denzin and Lincoln, 2005) based primarily on interviews and supplemented by policy documents that were collected and analyzed in the Spring and Summer of 2016. The aim of the qualitative inquiry was to uncover the underlying mechanisms that stimulate and prevent Tanzanian graduates to consider a career in entrepreneurship.

Interviews

A series of interviews was conducted with policy makers, experts and educators and entrepreneurs. Interviewees were selected based on purposeful sampling using the authors' own local networks as a starting point and then using a snowball technique to find other relevant interviewees. In each case, the authors discussed amongst themselves the potential relevance and contribution of the next interviewee based on their anticipated level of insight and understanding of the Tanzanian entrepreneurial ecosystem and institutional landscape, prior to contacting these prospective interviewees via phone or e-mail. In total, 18 prospective interviewees were contacted but due to availability constraints only 13 interviews could actually be performed.

Interviewees were guaranteed anonymity in order to enable them to speak their minds more freely and to reduce the level of social desirable answering. The interviews were conducted following a predesigned topic list and conducted by one of the authors who is a native from Tanzania and who has a thorough understanding of local intricacies and language. They started with a general introduction and a series of questions about the interviewees' general ideas about the entrepreneurial climate in Tanzania and the need for certain capabilities to succeed as an entrepreneur. Next questions were asked about the importance of social networks. Finally, the role of certain prominent groups of entrepreneurs and multinational in Tanzanian society, and how this potentially affects graduate entrepreneurs was addressed.

Several experts that could not be interviewed in person due to limited availability or our inability to travel locally were asked to respondent a number of questions via Skype. While less rich compared to the face-to-face interviews as a result of sometimes poor connections their answers were nevertheless incorporated in the analyses.

Whenever possible, the interviews were taped for the benefit of the other researchers involved but due to the sensitive nature of some interview topics in case the researcher decided to turn off the recorder to allow the interviewee to speak more freely. In these cases, the interviewing researcher prepared a summary of the results directly at the end of the interviews to share with the others. This enabled the authors to discuss and collectively interpret the relevancy and meaning of the interviewees' responses and analyze the data on a deeper level. The interviews lasted between 45 and 65 minutes.

In addition to these interviews with professionals, we also organized three group discussions with five, nine and six students, respectively who were about to graduate from the entrepreneurship education programs of the University of Dodoma, Mzumbe University

and Jordans University (both in Morogoro). The participants included both students with entrepreneurial experience or intentions and without. Some of them came from families where both parents work(ed) in as civil servants, others have parents or grandparents who own(ed) small businesses in the retail or agricultural sector. The group sessions were organized both for reasons of time constraint as well as to entice debate amongst the participants. During the discussion, similar topics were raised as during the expert-interviews. The group discussions were not taped but notes were taken and a summary was prepared immediately after the sessions were over.

Secondary data

To complement and put into perspective the interviews, policy documents and media reports as well as a number of government and company websites from the period of 2015 and first half of 2016 were collected and reviewed. The aim of the policy document analysis was to identify relevant background facts and figures regarding the distribution of entrepreneurs amongst different groups in Tanzanian society, regarding entrepreneurship education initiatives at Tanzanian institutes for higher education, and regarding general and specific regional and national policies for supporting entrepreneurship. Media reports, in English, were collected from www.TanzaniaInvest.com and allafrica.com using keywords such as entrepreneurs, entrepreneurship, small business, SME but disregarding reports that were clearly about sustenance or necessity entrepreneurs. The articles were reviewed to gain an understanding of ongoing developments and impact of these policies. Typically, the media reports reflected the views of the government officials, high-ranked bank officials or international corporate investors, while scarce references were made to the perspective of local SMEs or entrepreneurs.

Data analysis

Data analysis was primarily conducted by the first author, who went back and forth between the collected materials and linking them to a set of key concepts and themes derived from the theoretical framework, namely opportunity-driven entrepreneurial intent and entrepreneurial activity, graduate entrepreneurship, capability, functioning, social capital, role models, group membership and inclusiveness in order to arrive at a deeper understanding of (the lack of) graduate entrepreneurship from a capability perspective. Appropriate quotes were selected to support the findings. Some of these quotes were representative for the entire set of interviewees but typically they reflected the most manifest ideas about a certain topic. These original insights and quotes were then discussed at length with the co-authors to establish credibility and confirmability (Schwandt *et al.*, 2007).

Findings

Entrepreneurship as a potential valued functioning among graduates

“More than 10,000 applicants, only 70 candidates were needed for the immigration job posts. Unemployment is a time bomb waiting to explode, government should invest in creating conducive ecosystem for self-employment in this country. Entrepreneurship is no longer a luxury it is a necessity in Tanzania.” This quote from the former President of Tanzania, Dr Kikwete shows that the government begins to recognize the urgency to invest in entrepreneurship, something which is recognized by the interviewees. According to the interviewees, the increased policy and media attention has an impact on the outlook of young graduates. For instance, according to one lecturer they “[...] are coming up but mainly in areas of science, innovation and service industry. These are emerging enterprises that needs more of your brain power, commitment, perseverance, and innovation to succeed.”

Likewise, the students who participated in the group discussions mostly indicated that they indeed aim to become full-time entrepreneurs (or self-employed) someday. One of them indicated: “[...] at the moment I have two alternatives in mind, one look for a job or start a business. But employment is just for accumulating starting capital [...] but priority is starting a business.”

This young generation increasingly looks up on successful home-grown entrepreneurs and models their aspirations against their performances. One noted that in the last few years, the new generation is not only regarding successful entrepreneurs owning large corporations as role models but “particularly young upcoming entrepreneurs involved in startups.” Yet, as indicated by another educator, the majority of students who expressed an interest in entrepreneurship while in college, no longer pursue this ambition after graduation. She added that this is most significant for female students. “Very few actually pursue entrepreneurship.” The lack of entrepreneurship actualization suggests that something prevents graduates from translating their ambitions into valued and achieved functioning. Therefore, the next sections will examine how actual entrepreneurial capability is shaped in the Tanzanian context.

Influences on graduates’ entrepreneurship capability

Internet and ICT as positive conversion factors. According to some interviewed entrepreneurs, the Tanzanian business environment presents limitless business opportunities for graduates. “[...] so many white spaces for graduates to fill in that it is almost hard not to spot the opportunities once you know where to look.” There is a shift from the more traditional areas (of agriculture and trade) to more knowledge-based opportunities like high-tech sectors and ICT. The value-added potential of technology entrepreneurship is generally considered to be much higher thus indicating a slow progression toward a more advanced and knowledge-based economy. Improvements in internet connections and social media from which young graduates are benefiting voraciously are the important drivers of this process. Young graduates take advantage of the rich source of information that the internet provides. It reduces costs of communication and begins to make for instance banking a lot more efficient and effective.

These technologies are further opening up a new set of opportunities. For instance, with increasing internet penetration comes a demand for high-quality content and as result even in the last two years the number of people working in the creative industry as photography, music and particularly video is exploding. As one respondent (an educator) mentioned, “[...] every second person I meet seems to be a photographer.” Viewed both a source of information and communication facilitator as well as a source of novel opportunity not previously available in Tanzania, the advent of online and mobile information and communication technologies can be seen as an important conversion factor enabling graduates to achieve their entrepreneurial aspirations.

Blocked access to financial resources. To actually pursue innovative opportunities, more than just a good idea is needed. Notably, all respondents suggested that the single most factor blocking aspiring entrepreneurs to starting a viable business in Tanzania is obtaining access to startup capital. This seems to be a double edged problem. As stated in the *Tanzania Daily News* (September 16, 2014) “barriers to inclusion include ‘the supply-side barriers range from high interest rates, services that don’t meet demand side needs, costs, to inefficiencies of service delivery’. On the demand side, he cited information asymmetry, irregular income patterns and financial illiteracy.”

Indeed, when asked about the role of the financial sector the respondents indicated that it is not yet ready to deal with the needs of SMEs and startup entrepreneurs: “The banks are afraid that these entrepreneurs will not repay” or “have a lack of collateral security.”

Moreover, bankers do not necessarily understand the current markets. “If you are not active in agriculture or real estate they do not recognize where the opportunities of this day lie.” Such mismatches between the market perceptions of entrepreneurs and bankers are particularly holding back technology entrepreneurs. At the same time, the respondents also volunteered that many graduate entrepreneurs have poor understanding of how the banking system works and what is required to obtain a bank loan: “there has never been more money available at the banks than now, yet people do not know how to draft a solid plan or what to give in return.” Several interviewees indicated that many would-be entrepreneurs do not recognize their potential as well as the need to actually utilize their agency to make things happen. If they do not act in a proactive and persistent manner to convince the bank to provide the available funding the banks can easily turn them down. Preparing a funding application in full detail and having a credible story regarding personal investments and ways to repay initial loans is part and parcel of this deal. Regardless of their background, many interviewees indicated pointed toward the ill-suited and overly theoretical (entrepreneurship) education rather than the currently banking rules as the main source of this particular problem.

Recognizing that many prospective entrepreneurs do not understand how to deal with banks, some banks are now beginning to take initiatives to offer support to potential clients. For instance, the Tanzania Investment Bank recently organized free entrepreneurship training for entrepreneurs in the areas of financial management, corporate governance and business strategic planning (*Tanzania Daily News*, July 2, 2016). Additionally, several interviewees pointed to the increasing number of incubators that have entered the market. These incubators train entrepreneurs in writing a business plan to substantiate their requests for bank loans or external investments. Yet, hitherto such initiatives are scant and only offer a few graduates, typically those who either have the right connections or those who display more than average pro-activeness, the opportunity to develop their financial skills and gain access to startup capital. This leads to the impression that these initiatives do not reach the group who needs it most. Most graduates therefore continue to “turn only to family members who cannot afford” or “to shady investors that take more than they should.”

In short, the Tanzanian banking system is not up to the demands of an entrepreneurial economy. The number of (international) financial investors in Tanzania is increasing and more support schemes are put in place but their reach is limited. While the financial sector does not seem to be purposefully blocking young graduates from utilizing the entrepreneurial support schemes, it is however clear that, due to poor educational preparation, most graduates simply do not know how to connect to them and lack the visibility to be found. Not being able to participate in the financial markets, regardless of the reasons, is however a major negative conversion factor causing too many young graduates to abandon their entrepreneurial aspirations.

Administrative and risk-taking constraints. The lack of financial capital moreover affects startups in terms of being able to deal with government regulations and red tape. Many interviewees indicated that registering a business and complying with various taxation procedures in Tanzania is still cumbersome and can be very costly. Not only are businesses required to obtain costly permits, in many cases entrepreneurs are required to hire experts to help them deal with complicated forms or even pay officials smaller or larger bribes to process the issued documentation. Yet, even when no direct costs are involved, the interviewees generally agree there is “too much paperwork.”

This paperwork prevents many startups from securing larger lucrative government contracts. While SMEs can officially participate in most tenders, in practice “it is simply not attainable if you do not have money or know the right people.” Government officials and members of the Tanzania Bureau of Standards, on their part, argued that one of the reasons

why the government does not often grant contracts to startups is that the startups cannot guarantee the quality of their products. Consequently, most government contracts go to either larger established domestic companies or even to foreign direct investors. Little evidence exist that government officials are taking any measures to remedy this situation or even that they consider it to be a problem for Tanzanian entrepreneurial development. While not necessarily intentionally their behavior as well as the current legislation is actively limiting the graduates' entrepreneurial capability. However, one interviewee, a younger but successful entrepreneur of Asian descent, pointed to the importance of agency in this respect. He suggested that persistence in combination with personal charm and good ideas do make a difference: "Just don't give up and keep going back [...] someone can give you a break." This suggestion links to another issue raised by several interviewees namely risk taking. Risk taking is an integral part of doing business, but according to several interviewees "It is inherent in entrepreneurship [...] local Tanzanians do not have that as much as some of these other groups." These "other groups" mainly refers to the Indian population which is regarded by all respondents as the most entrepreneurial group within the Tanzanian society. "Their businesses generally grow much bigger[...] this is because they take more risk [...] they can afford to do."

To some extent, it is indeed an issue of affordable risk taking, which depends on what people start out with and can fall back on in case a business goes sour. Yet, additionally, there seems to be a cultural element. One mentioned: "Tanzanians do not discuss their success and think they cannot compete with for instance the Kenyans. Another added "[...] accordingly there are still a lot of negative sentiments against making a profit [...] if we do not change that we will discourage entrepreneurship" Such discouragement clearly negatively affects graduates in pursuing their entrepreneurial ambitions, and again form evidence for the limited entrepreneurial capability of this group in the Tanzanian society.

Shortfalls in entrepreneurial education. When asked about the role of education, the respondents agreed that it is common for both public and private universities to offer courses or programs in the field of entrepreneurship. Yet, as already pointed out, not all respondents agree on the extent to which these actually enable graduates to actually become successful entrepreneurs. The educators find evidence for their own progress in the "rising number of graduates who do become successful business owners. Alternatively, interviewed students as well as policy makers suggest that in general recent graduates tend to lack sufficient agency to translate entrepreneurial ambitions into action: "many graduates lack skills [...] sustainability business skills or long term strategies. They fail and do not recover from failure [...]"

It was pointed out that educators and established entrepreneurs often fail to connect. Teaching models are often based on traditional methods such as lecturing or in-class discussions. Recently, educators have started to bring more entrepreneurs into their classrooms to share experiences with their students and to act as role models. But as indicated by several interviewees, educators and entrepreneurs are not joining forces to create real-work case studies or assignments for students to work on nor are they actively seeking to create traineeships for students to work with entrepreneurs. As one entrepreneur indicated, "It's hard to find talent [...] we need to train them after they graduate [...] better they come as trainees while still at university." This entrepreneur further suggested that it is this lack of hands-on experiences means that graduates are ill-equipped to deal with the problems that you face as an entrepreneur and that it is this lack of preparation that causes too many graduates to abandon their entrepreneurial aspirations.

Social capital and institutional context

Role of family and friends. It is widely recognized that family background and ethnicity has a strong impact on career choice and entrepreneurship due to its influence on social norms

and behavioral templates, (moral) support and access to relevant resources. There is clear consensus amongst interviewees that family members' opinions are important in deciding whether or not graduates want to engage in entrepreneurship. For instance, one graduate indicated "[...] My brother hated employment and that has influenced me to think entrepreneurship. To become my own boss [...]" while another added "[...] Still I think of entrepreneurship. My father is an entrepreneur but not educated. I want to do better than my father. I read *Rich dad, poor dad*. I will do better than my father [...]" Furthermore, for some, family experiences are a reason not to become a full-time entrepreneur. One female graduate put it clearly: "[...] I want to be employed, and start a business just as an additional income. You see my mother hates self-employment. This is because of the experience my aunt had. She was employed, but left her job to start her own business, but she failed. She went totally broke [...] my mother hates entrepreneurship. She is against this idea [...]"

Family members, however, are not only important as role models and for offering much needed moral support. Most interviewees indicate that parents and siblings are the most common source of financial assistance, especially for start-up capital. Such financial support offered by family members can also serve as collateral or leverage when seeking additional external funding as was pointed out one interviewee. He suggested that their father gave his brother a loan of 1,000 dollars, and with this convinced a bank to loan him another 20,000 to start a school. Parents are further looked toward for getting legitimacy: "[...] we believe that if you do what your parents or family members don't support it may become a curse." Yet, one of the educators suggests going against the will of their parents becomes more common for graduates: "They are more in dependent these days [...] when the parents have little education [...] they think they know better (than the parents)."

The interviewees, further, indicate that graduates are generally aware that they cannot rely solely on family members when it comes to starting a business. Graduates often view their classmates as potentially important providers of support and resources while others pointed to the relevancy of the whole neighborhood. One said: "For example if you don't greet them. They may not buy your products, or may not give feedback on your product."

Thus, having access to social capital from family members and other close ties is generally perceived to be a critical factor in determining whether other not graduates would actually engage in entrepreneurship. If the personal network withholds active support, entrepreneurial aspirations developed at a university are more than likely to die down soon after graduation.

Social capital and the role of professional networks. Professional networks have also been considered an important source of social capital. Establishing the right professional contacts is however not always an easy task for graduates. One educator reflected on a graduate from her class who wanted to set up a trading company, but could not find a middleman. As a result, when he wanted to bring his products to the market he could not sell them because for that you need a middleman which he did not have. When asked why finding a middleman was so difficult, this graduate said "you need money [...] he did not have, his family did not have [...] so he could not find a middleman and had to abandon the business."

In line with what was already suggested by Gamba (2017), the interviewees indicate that becoming a member of one of the growing number of professional business networks and associations is not something that starting entrepreneurs usually do in Tanzania. "That is more common for established businesses." Again this seems to have a cultural element: "For Tanzanians that is a big challenge; we are always worried about collaborating [...] someone could steal your idea [...] the market is not big enough for everyone to take a share."

A number of respondents indicate that the arrival of business incubators, such as in Dar es Salaam, is a good development for graduate entrepreneurs. These incubators do not only allow young entrepreneurs to benefit from relatively low rents and the sharing of

facilities but by offering professional services and mentoring they might also help them to build networks and act as accelerators. It is generally believed that such incubators: “will support small businesses to cross the threshold from micro to small to large. I estimate 10-15 big companies in the next 10 years” (Dr Olomi: <https://africanentrepreneurshipaward.com/tanzania-the-private-sector-is-waking-up/>). Like in Europe or North America, though, not everyone believes this models works: “it is sheltering these startups too much [...] not preparing them [...] it’s based on cohorts that all lack experience and networks [...] I’ve seen very few go through and proceed to grow.”

These findings indicate that relevant social capital in the form of much needed resources, contacts, moral support and collaborative effort from professional networks and organizations is difficult to obtain and of limited help for Tanzanian graduates who seek to start a business.

Entrepreneurial groups and dynasties

When the interviewees were asked whether they could identify certain families or ethnic groups that are famous for entrepreneurship in Tanzania, all interviewees indicate that there are certainly a number of families that have been successful in business for generations or where all brothers and cousins are involved: As one graduate indicated, “[...] Yes we know, but most of them are foreigners. The Indians, Arabs. They have dominated [...] The Dewji, Rostam, Manji, and Bakhresa. They will dominate, even in the years to come. Not many Africans. Africans are more in politics and even their children tend to go into politics but not business [...]”

The dominance of Indian families was confirmed in various newspaper articles as well as by a number of educators. One mentioned “They learn from a very young age [...] the children will help in the business after school, so they learn. This gives them an advantage.” While to a larger extent, the “Arabs” tend to do the same and hence show their children that a career in business is not only acceptable but can be highly profitable. When asked about the presence of Chinese entrepreneurs, some interviewees indicated that these came much more recently to the country but are indeed starting to dominate some sectors.

Yet, it is not only non-African groups and families that dominate the entrepreneurial landscape. All interviewees mentioned the Chagga from Kilimanjaro as being the most entrepreneurial Tanzanian community. Various interviews referred to their close-knit networks and willingness to help other tribesmen in setting up their business. One of their common practices is to work for a particular business for free for one year during which they learn about all aspects of the business and afterwards they are expected to “be able to stand on their own feet.” Furthermore, wherever they live in the country, they spend a number of weeks back in Kilimanjaro around Christmas time. They all meet and ask each other about the latest developments in their various businesses and see how they might be able to help each other. Another interviewee referred to another local group, the Kinga from Iringa and Njombe, who are involved in business on a more than average rate. These anecdotes suggest that family and cultural background are important when it comes to starting a venture in Tanzania. Yet, one of a respondent is from the Chagga people and had this to say: “[...] it is not about being a Chagga or the group you come from. It is more on the circumstances that you have passed through. We the Chagga are from tough environments, no farm land [...] This forces the Chagga to look for other alternatives [...]. It is not the tribe but circumstances.” Likewise, as indicated by several interviewees, social exclusion at the labor market in previous decades many Indian Tanzanians had to engage in entrepreneurship for necessity reasons. They served as the role models for their children who are following in their footsteps today, but now driven by opportunity motivations.

When asked if and how the presence of such entrepreneurial groups in Tanzanian society somehow affects graduates developing and more importantly acting upon entrepreneurial aspiration a number of issues came to the fore.

For some graduates, these entrepreneurial groups act as role models even for other social groups “[...] yes, they affect us. But I think positively. They act as role models. We learn their history and know the progress. I hear Bakhresa started at a very low level [...] and Dewji went to school just like us.”

Generally, however, the interviewees agreed that these dynasties and groups do not play a (pro)active role in mentoring non-group member graduates to engage in entrepreneurship. They will offer graduates jobs but as stated by Interviewee 1: “not in the highest ranks [...] they put people they trust [...] they know and who know the family.” Other interviewees, too, suggested that their businesses are generally closed networks that are difficult to penetrate for non-group members. When confronted with such remarks an entrepreneur of Indian descent however offered an interesting perspective. He indicated that he recognized this but only for established family businesses “They only recruit and promote within the group.” Yet, in his perspective, for recent startups such selectivity is not viable “We need all the talent we can get and we know that we need to be diverse [...] I want them to be Tanzanian [...]” Indeed, while only offering anecdotal evidence, the websites of several recent Tanzanian startups show teams that are generally of mixed heritage thus suggesting a more nuanced perspective on the role of ethnicity in firm networks.

Working for an established company from one of the famous families is generally considered highly valuable. Graduates and educators indicate for example: “[...] Many graduates have become entrepreneurs by learning how they work. I know one person who left and made and sold the same product of a former employer [...]” Indeed, as one entrepreneur mentioned: “some of our best talent are moving and starting after we invested in them learning and seeing how it works.” Alternatively another graduate indicated: “No [...] I don’t want to work for them. Remember I said I want to have my own business [...] Or maybe I will work for them but this is in order to learn their skills. So mostly working for them is for achieving my goals and to obtain necessary information [...]” Besides recognizing they can learn and build experience for their future own ventures by working for these established companies, graduates further believe that these established companies can become their future customers: “You know bigger businesses need smaller ones in the supply chain.”

Not everyone expresses such positive views however. A number of interviewees indicate that the dynastic companies are entering and outperform local SMEs in more and more markets by offering better quality products at good prices: “[...] Bakhresa now sells maandazi, chapatti, and coconut milk. These were businesses of low income citizens [...]” Others pointed out that rather than the dynastic Tanzanian firms, particularly foreign direct investors are negatively affecting the market for graduates: “I see now the dominance of Chinese in the construction sector [...] for me I think they take our opportunities. The money goes to China, no money for the local companies [...]” Furthermore, the effect that established domestic and multinational companies have on the startup intentions of graduates, might be more subtle. As one graduate noted: “[...] You know I said I want to start my own business but after obtaining capital from my salaries. But when you get a job with one of these companies, they bind you with a long term contract, and may be later give you a loan repayable in 10 years. This binds you for a long time and you will not get to start your business [...]”

Discussion

This study explored why most Tanzanian graduates do not engage in entrepreneurial careers even in the face of a lack of alternative career opportunities, while some do and how

we can explain such different responses to the same institutions. The empirical findings show that the entrepreneurial climate in Tanzania is clearly in a state of transition. In line with the work of Kabanda and Brown (2015), this study shows that increased positive attention from policy makers, educators and the media combined with the introduction of faster internet and mobile technologies have already spurred a small group of graduates into entrepreneurial action. As such, these findings reflect those of Lindeman's (2012) who already pointed to the importance of conversion factors like devices and external support in translating valued functionings into actual functionings. However, this study also shows that not all graduates are equally likely to benefit from such conversion factors. Indeed, the vast majority does not seem to be able to utilize their agency to translate entrepreneurial ambitions developed while in school into action once graduated. As stated by Sen (1980), the motivation to act as an entrepreneur depends on the personal conviction that success is possible, maybe even within reach. Based on the findings it is argued and shown that, in the Tanzanian case, access to social capital (e.g. Hite, 2005) plays a pivoting role in this process toward empowering graduates to develop such convictions. In fact, the uneven distribution of social capital explains why few graduates can cultivate the personal freedom and power to develop entrepreneurial functions. For instance, one area where graduates clearly lack agency is the start-up capital: most of them lack both the skills and the connections to seriously pursue obtaining access to external funding from banks or venture capitalists and give up at the first rejection. Likewise, complying with government regulations or obtaining a lucrative government or multinational contract proves difficult without access to the right connections, thus limited in the entrepreneurial capability of the target group. Simultaneously, the inability to access funding and utilize connections contributes to the inability to develop products that meet the necessary standards to be granted government contracts or equally interesting contracts from foreign direct investors. This leads to vicious cycle that is particularly difficult to break, and leaves many graduates without actual entrepreneurial capability unless they have the appropriate social capital. Graduate entrepreneurs clearly lack the agency to change this situation on their own. Rather, it is up to powerful actors like government functionaries, managers of multinational corporations and established entrepreneurial families to change their behavior toward aspiring graduate entrepreneurs so that they can actually act upon opportunities in the Tanzanian environment. This means that unless such institutionalized actors actively start to facilitate graduates to establish more relevant and powerful connections and gain access to the necessary social capital the Tanzanian market is likely to continue to be dominated by a small number of specific and powerful groups with a clear competitive advantage. Stimulating dominant actors to become more inclusive toward startups may therefore turn out to be a key conversion factor toward enhancing graduates' entrepreneurial capability. This notion of social capital as a key conversion factor that enables aspiring entrepreneurs to translate valued functionings into actual functionings offers a novel way of looking at how entrepreneurial capability can be enhanced.

Conclusion and recommendations

Contributing to the literature on entrepreneurship incidence and entrepreneurial capability, this study concludes that entrepreneurship capability is unequally distributed amongst young educated Tanzanians. This study shows that conversion toward real capability in Tanzania depends on personal insight, reflection and resoluteness – in other words, personal agency which in turn depends on the access to social capital. Lack of capability can be tackled when adequate conversion factors are detected, reforms that can take place in policy, education and financial services and the improved coverage by social media.

To remedy the lack of entrepreneurial capability, we formulate a number of recommendations aimed at putting in place the necessary conversion factors to enable

graduates to develop stronger social capital positions and become embedded within the established networks that are currently dominating the entrepreneurial ecosystem of Tanzania. These are summarized in Table I.

First, within the public sector and especially the Ministries of Finance and Trade and Investment, much can be done. A review and thorough reconsideration of the 2002 SME policy in Tanzania can be a path-breaking way to support new ventures. Special attention needs to be directed to crucial authorities such as TRA, the tax authority. Equal fiscal treatment for large investments and for small SME undertakings concerning tax holidays and fairness in treatment can be confirmed by law. Newcomers should be respected and given time and advice rather than pressured for quick tax payments by tax inspectors. Such measures will convince young educated Tanzanians to believe in equal chances to start their own business.

Additionally, the local policy needs to be formulated so that starting entrepreneurs get better chances for outsourcing and local purchases by foreign direct investors. Furthermore, there should be adequate control of transfer pricing mechanisms well known to multinational companies. The result of increased transfer pricing control can lead to more opportunities for national SMEs. The latter will increase sales when the usual purchases at high prices from companies abroad for fiscal advantage are actively discouraged. In addition, the SME policy should include mechanisms for change of methods and attitudes both in the education and financial sectors, as explained in the sections hereafter.

In the education sector, full attention is needed for positive examples, case studies of successful new ventures, and modern business methods. Major reforms in the curricula should be introduced in business education at universities and high schools aimed at better entrepreneurial skills and more confidence building for entrepreneurship. Yet, most importantly, educators build ties to established entrepreneurs from all parts of the Tanzanian society to act as role models, guest lecturers and traineeship hosts to their students. In doing so, they will enable their students to develop social capital early on in their career.

Furthermore, the financial sector should be advised, encouraged and assisted for an internal review of the requirements to finance SME. The new SME policy should include how the requirements regarding legal formation, feasibility studies, sound business plans, experience in management, collateral, a sound payment history and availability of savings can be adjusted. Long-term finance for new ventures should be readily available for sound new businesses proposals presented by young educated Tanzanians. More importantly however, the financial sector should be encouraged to organize meetings with and workshops for aspiring graduate entrepreneurs in order to get to know each other, and to learn to understand mutual expectations.

Next, the media are important to link policy changes with whatever changes of attitude in civil society and among the families of prospective entrepreneurs. Social and traditional

Table I.
Conversion to
entrepreneurial
capabilities

Blocked functioning	Necessary conversion factors	Enhanced capability
Agency: uncertainty, lack of income, hesitations, waiting for a paid job, joining the informal sector	Changed personal perception, agency or motivation to succeed with formal ventures	Self-efficacy, confidence to get the venture started
Supportive startup environment: legislation and vested interests lead to favoring of incumbents	New government policies in tax, subsidies, competition directed at new starters	Enabling environment: TRA facilitation for starters, enforcement of competition rules, media support
Social capital: lack of support from family, friends and powerful actors	Inclusive attitudes from powerful elite, enlarged social relations, ability to utilize connections	Moral support and access to information, resources and lucrative contracts

media should be aware of their potential contribution in entrepreneurship. They can reinforce the message that capable graduates and new entrepreneurs have real chances that the entry conditions for newcomer entrepreneurs have improved, and how. The message can be spread that graduates are not only capable but also enabled to start business in manufacturing, in trade, tourism, mining and other promising sectors in Tanzania.

Finally, while enjoying a competitive advantage today, the established entrepreneurial dynasties and larger Tanzanian businesses should be encouraged to take more responsibility in investing in the next generation of graduates. They too, would benefit from giving talented young graduates a chance to enter their networks or by investing financially in promising new businesses of young graduates.

Both the discussion and these recommendations are based on our analysis of the Tanzanian context and formulated for this particular context. This context has been shaped over decades by specific political and economic pressures (Ujaama) as well as by its demographic composition and localized cultural practices. At the same time the country shares many characteristics with other countries in Africa, many of which are struggling to move toward a more entrepreneurial society. Hence, the recommendations may partially be transferable beyond the specific Tanzanian situation. Theoretically, the notion that social capital should be considered as a key conversion factors enabling aspiring entrepreneurs in translating valued functionings into actualized functionings and thus toward enhancing entrepreneurial capability opens up novel avenues for empirical research into how entrepreneurship can be stimulated both in Tanzania and other developing economies.

Note

1. Life; bodily health; bodily integrity; senses, imagination and thought; emotion; practical reason; affiliation; species; play; and control over one's environment.

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