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Success Under Duress: A comparison of Indigenous Africans and East African Asian Entrepreneurs

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1.0 Introduction

The East African Asians have become an integral part of the commercial sector in post independence era. Today, they virtually control almost all the trade and commerce. The aim of this paper is not to witch-hunt or to point fingers but rather is to identify the traits in the Asians entrepreneurs that the indigenous African counterpart can borrow to be equally successful in business.

A number of studies have been devoted to understanding why the aliens seem to be more successful in business than people of indigenous ethnicity. These include the Jews in Europe, Levantines in Latin America, Chinese in South East Asia and Indians in East Africa (Kilby, 1983). There is a hypothesis put forward that aliens groups in Europe, Asia or Africa are determined to succeed in business partly because they have often been excluded from many more desirable occupations in the countries they migrated to. Elkan (1988) adds the Levantines in West Africa, and Quakers in the seventeenth century England to the list, and argues that the only quality the groups shared was being minorities. He therefore concludes that their feelings of insecurity may have encouraged them to seek economic success. This is in contrast with the indigenous group that is generally satisfied with government positions and traditional livelihood based on agriculture. Kilby (1983) adds that the aliens' performance in business is enhanced by the cultural identity and group solidarity. Family and kinship networks further promote their entrepreneurship.

There are different perspectives to the role that most of these groups play in the subject countries. In a review of minority entrepreneurs and firm performance in Sub-Saharan Africa, Ramachandran and Shah (1999) point out that they are often accused of hindering the growth of indigenous private enterprise by engaging only in rent seeking, using outdated equipment, and limiting their hiring of locals. Others have argued that they have played an invaluable role in the growth of the private sector by bringing into the country, better skills, financial resources, and networking channels.

2.0 Categorization and Definition of the East Africa Asian Subgroups

The South East Asians in East Africa are not a homogenous group, although entrepreneurial skills are cross cutting and cannot be attributed to a specific group. Each group however has its own business networks and their investments have however been determined by historical factors as will be discussed later.

The term Asian as understood in the East African context is clarified in a paper done by Sumra (1990). He explains that although the term Asian should refer to all those groups from the Asian continent, in East Africa it is used synonymously with Indians from the sub-continent of India. Arabs though historically involved in the growth of the region has played a different role from the Indians and can therefore not be analysed in the same context.

He analyses the Indians in the context of religion. Sikhs who originated from the state of Punjab are very few and their participation in commerce is not substantial. They are mainly involved in technical related activities such as saw milling, running small engineering workshops and vehicle bodybuilding.

Hindus and Muslims were mainly from Gujarat. Sumra (1990) highlights that most of the Hindus still have familial ties with their communities in India. Majority retained their British nationality and very few acquired Tanzanian passports. Muslim groups include the Shias (Ismailis, Ithnashris and Bohras) and Sunnis. The Ismailis is the largest Muslim group. The Ismailis became Tanzania citizens and have no link with their communities in India.

In this report, we will be reviewing the above groups in exclusion of the Arabs.

3.0 Entrepreneurial History

The Asians are probably the oldest merchants in East Africa; only next to the Arabs. Literature indicates that as far back as 1780, ivory traders from Gujarat were operating along the East African coast. Infact, Robinson (undated) argues that Hindus had started trading in Uganda as early as thirteenth century. The Indians were traders and store keepers who acted as intermediaries between local African producers and European exporters. It was however until around 1840s, that coastal based Indian merchants and financiers began moving into the hinterland. The establishment of the East African railway and other infrastructures by the colonial governments accelerated their entry into the interior[1]. It was from this group that a merchant class was later to evolve.

Over the years, the Asians entrenched themselves into the system and become key traders in the three East African countries. Prior to the Second World War, the Hindus controlled 90 per cent of the trade of Uganda (Robinson Undated). This was despite some limitations put by the colonial governments.

By the time of independence, the Asians had become established businessmen in all the three countries. According to Himbara (1994), a 1962 survey of 58 manufacturing enterprises with over fifty employees revealed that local Indians owned 67.2 percent of these companies. In Uganda, Asians controlled about 90% of the retail trade in the whole country by 1962 (Kabweru, 1997).

4.0 Post Independence Era

If operating during the colonial governments era was complicated the new African led independent governments were not ready to make it easier.

Kenya probably presents a mild case. The Kenyan government after independence adopted some Africanization/indigenisation policies, which adversely affected the growth of Asians businesses. The Trade Licensing Act of 1967 stated that no person who is not a citizen (meaning not indigenous) of Kenya shall conduct a business (a) in any place which is not a general business area or (b) in any specified goods. This forced the Asians to move into more complex economic sectors not covered by the directive such as finance, construction and manufacturing. This was however a blessing in disguise because they were able to acquire vast managerial, technical and

[1] Note also that more than 32,000 Punjabi Sikhs and Muslims were brought to build the East Africa Railway.

financial resources. When the Africans failed, they came back to reclaim the retail sector. Kenya however did not face the exodus witnessed in the other two countries.

Tanzania was also not very friendly and viewed Asians as exploiters. The nationalization policies through the 1967 Arusha Declaration was major set back for the Asian investments in the country. Sumra (1990) however argues that the Arusha Declaration had minimal effects on their investments. The biggest blow was the nationalization of buildings in 1971. The Asians owned nearly all the commercial and residential buildings in the central parts of most towns. The mostly affected group was the Ismail who had come to regard Tanzania as their home country and had also invested heavily in other social infrastructures such as schools and hospitals.

What followed was an en mass migration of Ismaili's to Canada and slightly to Pakistan. The Hindus migrated to mainly to England. Not only did this mark the drain of one the most skilled entrepreneurs in the country and other professionals such as doctors, engineers and lawyers, but capital also flowed out of the country legally and illegally. These historical events according to Sumra (1990) have shaped the Asians approach to business and social life up to date; suspicion of the indigenous. The Hindus who remained have retained closer ties with their communities in India. They also repatriate some of their profits to India and others have British passports.

The most historical case was witnessed in Uganda. The Uganda government also adopted its own version of Africanisation. The Asians were excluded from public employment and limitations were put on their ability to own businesses in large parts of the country. They were also restricted to trading in specified commodities. Because of africanisation policies, over 24,000 Asians left Uganda between 1969 and 1971.

But the worst was yet to come. In 1972, the new regime of Idi Amin expelled Asians from the country. Among the reasons why Amin expelled them was the issue of dual citizenship and accusations of illegal export of money from the country[2]. They lost property and businesses estimated as worth between 100-150 million pound by being

[2] The initial decision was meant to affect at least 23,000 Asian British passport holders. However the decree of 9th August 1972 revoked all entry permits and certificates of residence, which had been granted British passport holders, national of India, Pakistan and Bangladesh. They were to vacate Uganda within a period of 90 days.

forced to sell to a government agency rather than the open market. Despite the setback, most started from scratch again and become prominent businessmen in Britain and Canada[3]. It was later when Museveni came back to power, that in 1992 he invited the Asians to come back and repossess their assets. Statistics are not available but few such as Madhvani discussed in the case study have taken up the challenge[4]. Only about 15,000 Asians are living in Uganda today (Lacey, 2003).

5.0 Era of Market Reforms to the Current

Despite the set backs, the Asians still control a substantial share of the commerce and trade in East Africa. A survey of 100 large-scale manufacturing firms in 1990, established that 75% were owned by Kenyan Indians. They also owned 86% of the firms valued over Ksh. 100 million (Himbara, 1994). By 1998, Asians constituted 0.3% of the Kenyan Economy, but controlled over 70% of the monetized economy (Janjuha and Woods, 2002). The Sameer Industrial Park owned by Naushad Merali was the first Export Processing Zone to start operating in Kenya.

In Uganda, estimates put the investments they have made in the country over the past decade at somewhere close to US$ 1 billion (Lacey, 2003)[5]. It is estimated that the Madhvani group alone contribute about 8% of the total tax collection in the country. Data on the extent of the Asians domination of the economy is not readily available as it is considered to have a hidden racial agenda. With the markets reforms and liberalization since 1994 in Tanzania, the Asians seem to have regained control of most commercial sectors of the economy. According to Sumra (1990) most of the importation of goods is done by few big traders mainly Ithnashris and Hindus. Less than 20 importing companies control 90% of the imports, while the other Asians acts as traders.

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[3] According to an article in the BBC, the majority arrived in their new homes poor, frightened and worried about what the future held for them. But they also took with them a determination to rebuild their lives. And neither was the reception they received in Britain very friendly. Most of them made it through family networks and no state support.

[4] According to Mr. Dalal, the Indian association chairman, who moved to Uganda in 1993 "The methods he used in throwing Asians out were no right, but you can't fault his intentions. He wanted the indigenous Ugandans to get involved in business too, and that's happened. There's room enough for everyone.

[5] "You wont be wrong to say 30 to 40 percent of the economy is in their hands" Manuel Pinto, a former member of Uganda's Parliament whose father was an immigrant from Goa State in India.

6.0 Hostility Still Persists

Asians in East Africa still continue to operate under a hostile business environment. They are regarded as exploitative and exclusive privileged minority. Due to this and other historical experiences they will continue to have one foot in the country and the other one elsewhere.

In Kenya, though legally accepted as bona fide Kenyan business people, they are still not socially and politically accepted. Some politicians keep threatening them now and then, especially during periods of elections. They are also major targets during riots and other social disturbances though not exclusively. Their vulnerability according to Chege (1998) means they are squeezed for rents by politicians and other office holders. In this manner, a portion of Kenyan Asian capital becomes regime patronage and a source of accumulation for the politically powerful even as some Kenyan Asians are offered opportunities and protection in return.

Though concealed, politics and entrepreneurship are almost intertwined in the region. Even where it is not conspicuous, most entrepreneurs have their own proxies. The relationship between politics and development of a capitalist class has been a long debate by most scholars. Some scholars like Swainson (1974) had argued that the Asians would never become a domestic industrial class because they lacked political power. Himbara (1994) however argues that lack of political power has been a blessing in disguise for the Asian entrepreneurs. It has enabled them to acquire the commercial and industrial skills that would enable them to survive in an open market without patronage or subsidies. It however appears that Kenyan Asians are generally resigned to paying occasional rents in order to do business regardless of who is in power.

The racial myth by the indigenous population on the Asians in Tanzania is clearly summarised by Lofchie and Callaghy (1995) regarding their lack of investment in slow maturing fixed assets:

"The racial stereotype of Asians holds that Asians monopolize the Tanzanian Trading and merchandizing communities; they engage in illegal and unscrupulous business practices in order to make short term profits, portions of which the squirrel away in over seas banks; in so doing the contribute greatly to the problem of corruption in the Tanzania bureaucracy; that their ties of kith and kin in India, United Kingdom and else where give Indian businesses an unfair economic advantage such as the opportunity to borrow capital from family firms at low interest rates"

According to Sumra (1990), Asian investment is not very reliable because it is constantly flowing between Tanzania the Middle East and England. Changes in economic policies not favourable to the Indians can easily trigger a large-scale flow of the capital out of the country. That explains why they are not likely to invest in the industrial sector and would rather concentrate on trade.

A study tour by Lofchie and Callaghy (1995) however found this not to be true. Many members of the Asian community have invested in factories and plantations, and that some of the largest Asians in Tanzania are highly diversified conglomerates, which include a combination of trade and productive ventures.

It is time that indigenous entrepreneurs accept that the Asians are an integral part of our economies and are here to stay. It is only through learning their business acumens and competing on equal grounds that a solid indigenous entrepreneurship can be build. Preferences to indigenous entrepreneurs as was witnessed in Kenya or radical measures such as those adopted by Amin in Uganda makes them even shrewder.

7.0 If You Cant Beat Them Join Them

The core objective of this paper is to identify the entrepreneurial features possessed by the Asians that other indigenous entrepreneurs can adopt to compete effectively in a globalised market. What are these entrepreneurial skills that would make Indians loose their business to the Africans in the 1960s and 70s, return later and acquire the same businesses and prosper. A survey of manufacturing firms in Kenya found that entrepreneurs of African origin were still concentrated at the micro and small-scale levels where they owned 86% and 88% of the enterprises respectively. This is in contrast with the Asians who owned 81% and 88% of the medium and large-scale enterprises respectively (Bigsten and Kimuyu, 1998).

Some scholars such as Baumol (1990) have argued that entrepreneurship is shaped by the rules of the game and reward structure in the economy. He thus extended the five traits by Schumpeter to include other activities such as tax evasion, spe culation and rent seeking. Although these are the words consider synonymous with the Asian entrepreneur by a typical indigenous entrepreneur, this paper will steer away from this line of analysis since there has so far been no evidence. Although some few are involved in such activities, majority are involved in genuine businesses. Neither can we argue that Asians go into business because they have been excluded from the public sector, although this happened during the colonial period. They probably have eas ier entry into business using their cultural networks and find it more lucrative than been employed in the public sector. There are however some few Asians still working for the public sector especially in the medical profession.

Some factors are historical while others are based on attitude. Janjuha and Woods (2002) attribute the success of Kenyan Asians in commerce to a mixture of their ability to exploit business in niche markets and a reaction to been disadvantaged in the labour market. Himbara (1994) summarizes the commercial attributes of the Kenyan Asians as follows:

"An ability to survive in remote areas on modest resources and by sheer determination and hard work; their vision of the potential mass market and the patience to transform into an actual market; their general efficiency and competitive edge; and the role of family units and collective organizations in providing mechanisms to engender discipline and cohesion".

The concept of family business has been instrumental in the success of some Asians businesses[6]. Most of the Asian business conglomerates in the region have been family based. Family based enterprises of the African origin can be counted. One can however argue that Asians as aliens feel threatened and therefore have to stick together against real or imagined enemies. Which is why indigenous entrepreneurs do not find it necessarily to pursue family based enterprises. Family businesses even

[6] Family business played major roles in the earlier industrialization phase in Europe and United States. In the European Union countries, family enterprises form between 75% and 90% of all companies. One in eight companies on the London Stock Exchange are family based. In 1993, on third of Fortune magazine's top 500 companies in the United States were family controlled.

among the Asians have their own set of problems. Family conflicts are extended into the business causing integration.

It is estimated that very few family businesses survive beyond the third generation. Only 30% of such businesses are believed to reach the second generation, and of these, less than two thirds go on to the third generation. After the third generation, most businesses that are inherited would have gone. Although Janjuha and Woods (2002) imply that this is the biggest challenge facing Asian enterprises in Kenya, one can to some extent argue that they have withered the storm. According to Himbara (1994), the current fourth or third generations of merchants who came some centuries back have transformed their grand parents financial and commercial activities into large-scale commercial firms.

These historical factors have worked to the advantage of Asian enterprises. Although most have diversified, the business units established by their grand fathers even before independence are still operational. This gives the Asian entrepreneurs a head start. Most African entrepreneurs established their own businesses and had to start from scratch. Janjuha and Woods (2002) noted that the second generation had joined the business at a crucial stage in its life cycle often when internal structures were becoming formalised. In a survey conducted for the World Bank in Tanzania 74% of the Asian origin entrepreneurs had their father involved in own business compared to 22% of Africans. In contrast, 56% of the African entrepreneur fathers were involved in farming (RPED, 1994). In the same lines, 80% of the Asian entrepreneurs received their training in the form of in-firm training compared to 29% of Africans.

The above survey also found out that Asian Entrepreneurs were more highly educated than their African counterparts. In the survey, 34% of the Asians entrepreneurs had an education higher than school, against only 19% of entrepreneurs of African origin. In addition, 21% of Asian entrepreneurs went to university compared to 5% of African entrepreneurs (RPED, 1994).

Although Asian family networks work in their favour, previous studies have found out that strong affiliation to the family networks is a drawback and drain to the African entrepreneur. The African entrepreneur will be obliged to employ relatives even though they might not be qualified. Worse, the African entrepreneur is expected to invest in the rural areas despite assets such as rural homes generating no income. As a contrast the Asian entrepreneur re-invests in the business. The World Bank survey noted that 72% of African origin entrepreneurs own a farm compared to 25% of the Asians.

Another difference observed in the survey conducted for the World Bank in Tanzania is the ability to fully exploit the pricing freedom and market power. A greater proportion of Asian origin entrepreneurs use their market power than for indigenous entrepreneurs (RPED, 1994). They are therefore more or less the price leaders for most products in the market. Such immediate response to the forces of supply and demand ensures they can make a bigger profit compared to other entrepreneurs.

What this paper has shown is that the success of the Indian entrepreneurs goes deeper than the superficial context of race, corruption and rent seeking. On the other hand, development of the African entrepreneur to be competitive goes far beyond overcoming the derogatory term *being lazy*, which is mainly assumed to be the only factor behind their constant failures. It has also identified certain aspects that the indigenous entrepreneur can be able to borrow to stay afloat in the market. The solution is not replacing them but co-existence. This paper has not been able to establish to what extent the family network in Europe and Canada has been instrumental for the success of the Asian entrepreneurs. This will be a suitable area for further research.

7.0 Case Study of Madhvani Group In Uganda[7]

The Madhvani family have been involved in business in Uganda since 1949. The business group was started in 1905 by Muljibhai P. Madhvani with just one sugar plantation. The second world war however disrupted their business and they returned back to India. In 1949, Muljibhai and his two sons - Manubhai and Jayant- returned to Uganda to strengthen their business. Manubhai first assignment was to work in the plantation followed by a period as the general manager of the Kakira sugar works.

[7] This case study is obtained from various internet sources.

This was followed by a diversification of investments into different commercial sectors in the country.

By 1970 the Madhvani Group was contributing approximately 10 percent of the Uganda's Government income through corporate taxes and excise taxes. The company was also employing more than 20,000 people. With the expulsion of Asians from Uganda in 1971, they were forced to leave the country and they settled in Britain.

In 1985, the Uganda government invited the Madhvani family to assist in rehabilitating the various industries that had ground to a halt after 1972. With financial assistance from the World Bank, and encouragement from the Uganda Government, the Madhvani family resurrected the Kakira sugar plantation and various other industries.

Group now comprises some 52 industrial, commercial and agricultural enterprises operating through out East Africa, with its head office in Jinja, Uganda. The group produces toilet and laundry soap, safety matches, steel and metal products, glassware, crown corks and cardboard packaging. Its consumable products include corn flour, tea and beer. The company has also entered into the tourism industry and now owns Paraa Lodge in Murchinson Falls National Park, and Mweya Lodge in Queen Elizabeth Park. Some of the major industries include:

- Kakira Sugar Works Ltd
- Nile Breweries Ltd
- Mulbox Ltd
- Steel Corporation of East Africa Ltd
- Mulco Textiles Ltd
- Associated Match Company Ltd
- Uganda Metal Industries Ltd
- Sukari Sugar Ltd
- Madhvani Oil industries Ltd
- Madhvani Soap Industries Ltd

- East African Underwriters Insurance Ltd
- Channel Television Limited

The Madhvani Group is estimated to contribute around 8% of total tax revenue collection in Uganda. According to Madhvani Manuhbai the senior most member in the family who has retired from actively running the company, the family business successes should be put down to hard work, keeping an open mind, discussing freely with people and empowering staff. He says "our business success can be reduced to one factor - our staff or human resources. This was the philosophy of my late father, and I would like to think that we have tried to adopt the same philosophy".

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