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Institutional framing and entrepreneurship capital in Uganda

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Abstract

Purpose – The purpose of this paper is to provide policy and managerial implications required in solving the daunting problem of the existing low-entrepreneurial capital in Uganda.

Design/methodology/approach – A large-scale comprehensive survey using a sample of 11,105 small and medium enterprises (SMEs) from 40 high-growth towns was selected and undertaken from five regions of Uganda. The response rate was 40.5 per cent, translating into 4,498 usable questionnaires.

Findings – Results reveal that institutional framing, entrepreneurship human capital and entrepreneurial moral values predict entrepreneurship capital in Uganda. These results are presented and discussed in detail in this paper.

Research limitations/implications – The study applied a cross-sectional approach to study behaviour, yet studying behaviour requires time. Therefore, there is need for scholars to undertake a follow up study to test the hypotheses using longitudinal data.

Practical implications – The paper provides implications for the review and development of supporting institutional frames for entrepreneurship, promoting generalized forms of human capital and entrepreneurial ethics moral values.

Originality/value – The motivation for the study is derived from the observation that the legal and regulatory framework in Uganda is biased against SMEs. This is manifested in the high-regulatory burden of registering and running enterprises in Uganda. For example, the cost of registering a business in Uganda is high. Legal proceedings in Uganda are inefficient, complex and costly only favouring firms with resources and connections. This may restrict enterprise development and increase the costs of running businesses, distort human capital and entrepreneurial moral values thereby affecting entrepreneurship capital.

Keywords Entrepreneurship, SMEs, Institutions, Economic development, Human capital, Ethics, Values, Social responsibility

Paper type Research paper

Background

Institutions are made up of formal (e.g. rules, laws, constitutions), informal (e.g. norms of behaviour, conventions, self-imposed codes of conduct) constraints and their

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enforcement characteristics that define the incentive structure of societies and economies (North, 1994). Institutions may structure, constrain and enable the action choices of entrepreneurs (North, 1990; Williamson, 1998; DiMagio and Powell, 1983). Entrepreneurship framing is critical in the construction of business models and images which help to shape the perspectives through which people see business opportunities and economic organizations (Hallahan, 1999, p. 207). Extant literature reveals that institutions are responsible for the rate and direction at which innovation (Edquist, 1997) and business startup in a country. Institutional framing can have an unintentional effect on the behaviours of entrepreneurs who create wealth for nations and influence relations with important partners in the establishment and operation of business organizations. In the case of Uganda, these partnership organizations include but are not limited to local councils, local and central government authorities, community groups, industry or business associations, environmental groups, politicians, residents, suppliers, financial institutions and media publics (Fagerberg *et al.*, 2005).

The symbiotic relationships that arise out of institutional framing create regional implications for the emergence and distribution of business establishments across regions. This argument is consistent with the findings of Hall and Soskice (2001) who observe that although different business set ups vary systematically within regions, firms gravitate towards regions for which there is institutional support. This means that firm establishments in a country are based on the institutional arrangements. Researches on Ugandan institutions reveal how difficult it is for an entrepreneur to start and successfully run a business. For example, "globally, Uganda stands at 143 in the ranking of 183 economies on the ease of starting a business" (Doing Business in Amore Transparent World, 2012a, p. 16). On the strength of investor protection index, Uganda stands at 133 in the ranking of 183 economies, meaning that the economy's regulations offer weaker investor protections against self-dealing.

Summaries of institutional reforms since 2008-2012 reveal that in 2011, Uganda made it more difficult to start a business by increasing the trade licensing fees and introducing changes that added time to the process of obtaining a business license and thus slowing business start-up (Doing Business in Amore Transparent World, 2012a). The presence of numerous bureaucratic and legal steps that an entrepreneur must complete to incorporate and register a new firm creates negative institutional frames for entrepreneurs in Uganda (Ntayi *et al.*, 2013). According to data collected by Doing Business in Amore Transparent World (2012a), dealing with construction permits requires 15 procedures, takes 125 days (more than four months) and costs 946.8 per cent of income per capita. "On average, firms make 32 tax payments a year, spend 213 hours a year filing, preparing and paying taxes and pay total taxes amounting to 23.3% of profit" (Doing Business in Amore Transparent World, 2012a, p. 68). These are just a few of the many institutional frames that affect entrepreneurial moral values since entrepreneurs are not servants of the economy to start business in order to achieve economic growth (Hessels *et al.*, 2008). Such entrepreneurial contexts pose a number of unique ethical challenges to entrepreneurs.

Morris *et al.* (2002, p. 331) assert that "the financial and operational pressures found within most entrepreneurial firms heighten the incentive to engage in expedient behavior". This view is supported by Morris *et al.* (2002, p. 334) who assert that "entrepreneurial behavior is a set of actions fraught with ethical dilemmas".

Ethical dilemmas manifest in a number of ways including but not limited to conflict between personal and business goals, business startups, employee and customer relations. Dees and Starr (1992) categorize the ethical challenges of entrepreneurs to include promoter dilemmas, relationship dilemmas and innovator dilemmas. These ethical dilemmas may have significant effects on entrepreneurial human capital. Entrepreneurial human capital is defined as "specialized, high-level entrepreneurship-specific skills and knowledge, such as selling, negotiating, product development, risk judgment" (Shane, 2003) and entrepreneurial social capital. Although Uzzi (1997) reveals that social capital is fundamental to the success of a start-up once it has been founded, its relationship with the decision to become an entrepreneur has hardly been studied.

There is a wide body of knowledge highlighting the importance of human capital in entrepreneurial success. For example, Lazear's theory of entrepreneurship (Lazear, 2002, 2004) views occupational choice entrepreneurs as multi-skilled individuals. The theory further asserts that the probability of becoming an entrepreneur increase with learning and the skills acquired during prior roles in previous employment. This theory is supported by Wagner (2006) and Astebro (2006) who found that the likelihood of becoming an entrepreneur was associated with balanced skill-set and working experience. Unfortunately these studies fail to articulate the requisite entrepreneurial human capital.

In this paper we attempt to examine how institutional framing, human capital and entrepreneurial moral values shape new firm creation since these variables are not mutually exclusive but rather complementary. This study is based on the observation that there are sparse empirical studies on entrepreneurs' ethic. Most existing studies are conceptual and theoretical. Additionally, studies predicting entrepreneurship capital (new-firm startup rates as an indicator of entrepreneurship capital, the latter being an unobservable (i.e. latent) variable) (Audretsch and Keilbach, 2004, p. 10) are also limited. Therefore, this paper attempts to achieve two main objectives. First to examine what constitute institutional framing, entrepreneurial human capital and entrepreneurial moral values. Second, we attempt to predict entrepreneurship capital using the aforementioned variables and provide policy implications.

Literature review

Institutional framing and entrepreneurship capital

Institutional framing for entrepreneurship refers to the schemata of interpretation involving selecting some aspects of perceived business opportunities, weigh the associated costs and benefits, make moral judgments, predict their likely effects and translate them into businesses (Entman, 1993). The opportunity framing process entails using knowledge, experience, skills, association and expectation to make inferences about business events. Extant literature reveals that entrepreneurial behaviour is driven by opportunity or necessity motives. The opportunity drive includes the search for independence, wealth, challenge, recognition and status while the necessity drive considers the undesirable threat to unemployment (Wilson *et al.*, 2004). Both the opportunity and necessity drives are affected by the institutional framing of social and economic reality (Berger and Luckmann, 1966; Tuchman, 1978). The institutional framing may foster or inhibit the creation, discovery and exploitation of entrepreneurial opportunities and subsequent business startup. As stated by North (1981, p. 201), "they establish the cooperative and competitive relationships which constitute a society and more specifically an economic order". These are humanly devised constraints that constrain or enable people's behaviour. There is ample evidence from IBRD ranking of economies from 1 to 183 by the ease of doing business index, revealing that institutions in Uganda constrain entrepreneurial activities. Uganda has persistently lagged behind in rank on doing of business topics (e.g. compared to other African countries Uganda ranked: 119 in 2011, 123 in 2012). These topics include: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. There is a relatively large body of knowledge addressing the constraints and barriers to the start-up and development of small and medium enterprises (SMEs) in developing countries. Most of these studies seem to suggest the presence of institutional impediments. The studies reveal the absence of enterprise culture (Schoof, 2006; Nasser *et al.*, 2003; Blokker and Dallago, 2008), entrepreneurship education (Schoof, 2006; Nafukho, 1998), enabling environments (Llisterri *et al.*, 2006; Capaldo, 1997; Nasser *et al.*, 2003), inadequate affordable financing (Greene, 2005; Blokker and Dallago, 2008; Owualah, 1999), inadequate relevant business development services and supports (Blokker and Dallago, 2008). All these institutional impediments discourage entrepreneurship capital. By entrepreneurship capital we mean the capacity of a society to generate new firms (Audretsch and Keilbach, 2005).

A new stream of research that document common characteristics among countries that give rise to the above listed barriers to enterprise start-ups in developing countries has started to emerge. For example, studies from Tanzania using in-depth interviews with 15 entrepreneurial ventures reveals that prohibitive taxes and regulatory systems severely limit entrepreneurial endeavors (Nkya, 2003). Business licensing and permits were viewed as severe constraint by firms in Tanzania, relative to firms in Kenya and Uganda. In Uganda legal proceedings are inefficient, complex and costly, favouring firms with resources and connections (Fafchamps, 1998; Kiryabwire, 2010; Ntayi *et al.*, 2011). The regulatory burden of registering a business in Zimbabwe is equally high. Such institutional arrangements which result in high costs are damaging to economic performance, growth and development. Previous studies on entrepreneurship have tended to ignore institutional framing in the development of entrepreneurial capital, because this construct cannot be neatly packaged within econometric models. This is exacerbated by the fact that Uganda scores poorly in terms of failing to have an institutional framework that governs the starting and successfully running SME businesses (Kiryabwire, 2010; Ntayi and Eyaa, 2010; Katono *et al.*, 2010; Doing Business, 2011, 2012). Consequently, as noted by Ntayi (2012), such an environment makes Uganda a breeding ground for the rapidly growing informal sector which has become the "sponge" that provides job avenues to all categories of labour, including skilled workers. The existence of harmful institutions limits human capital which is transferrable through learning by doing and watching (Choi and Lee, 2003). Audretsch (2007) argues that institutional mechanisms are a pre-requisite for knowledge investments which are transmitted and transformed into economic knowledge, through the process of spill-over and commercialization. We therefore hypothesize that:

H1. Institutional framing promotes entrepreneurial capital.

H2. Institutional framing affect entrepreneurship Human capital positively.

Entrepreneurial human capital and entrepreneurship capital

Toth (2012, p. 7) defines entrepreneurial human capital as constituting "specialized, high-level entrepreneurship-specific skills and knowledge, such as in selling, negotiating, product development, risk judgment" (Shane, 2003) and entrepreneurial social capital. The question of what drives entrepreneurial capital is of interest to many developing countries of sub-Saharan Africa due to an increased recognition of the vibrant private-sector enterprise activity as a source of economic growth and poverty reduction (Toth, 2012). Several studies have considered formal schooling (Katono *et al.*, 2010), experience, knowledge and skills as predictors of business startups. All these constructs can be packaged neatly as entrepreneurship human capital. Recent studies that have attempted to study what constitutes entrepreneurship human capital have produced inconsistent and often contradictory results.

Research linking entrepreneurship human capital and managerial skill and knowledge of the individual entrepreneur startup has started to emerge (see, e.g. Bloom *et al.*, 2010; Bruhn *et al.*, 2010). Acs *et al.* (2005) and Acs and Plummer (2005) reveal that mechanism for knowledge diffusion and knowledge exploitation result in exploitation of entrepreneurship opportunities (namely start up activity). However, these opportunities need to be created before they are exploited (Snow and Bedford, 1992). Snow and Bedford (1992) assert that "if the founders of new ventures worked for incumbent firms or universities before commercializing their new knowledge, they inherit knowledge from their former employer". In Ugandan perspectives, opportunity, necessity (Gelderen and Jansen, 2006; Cassar, 2007) and frustrations with the current employers and expectations of greater financial rewards (Klepper and Sleeper, 2005) and presence of short-term or political windfall gains (Ntayi *et al.*, 2013) may force individuals to start their own business. Additionally, the perceptions of staff about job insecurity or an impending job loss may results into business start ups, as nobody wants to think of the trauma, nervousness, hopelessness, loss of confidence and behavioural problems associated with unemployment (Layard *et al.*, 2005; Ntayi *et al.*, 2013). Ntayi *et al.* (2013), using background characteristics of data collected from five regions of Uganda, reveals that individuals who belong to the ruling political elite, automatically become entrepreneurs, start and operate going concern enterprises. Although beyond the scope of this paper, it may appear that belonging to a ruling political group in developing countries represent seedbeds for entrepreneurship capital in sub-Saharan capital. Can this entrepreneurship process be sustained? We therefore hypothesize that:

H3. Entrepreneurship human capital positively affects entrepreneurship capital in Uganda.

Entrepreneurship moral values and entrepreneurship capital

Despite initiative, innovation and creativity (Ludwig and Longenecker, 1993), the moral values of the highly admired role models of corporate executives, managers and entrepreneurs have of recent come into question. The moral credibility of these entrepreneurs has come into attack due to the burgeoning cases of corporate scandals that are carried by both print and electronic media. Hannafey (2003, p. 99) observes that "While today entrepreneurs are likewise greatly admired, many of these business leaders are also often perceived as willing to do almost anything to succeed". Blumberg *et al.* (n.d., p. 3) using data based on very large dataset covering 20 countries in Europe, found entrepreneurs of small as well as medium- and large-sized firms to behave significantly less ethical than the remaining general population. These studies also reveal that those who reported having been a victim of unethical behaviour were are also less ethical (Hannafey, 2003). This is a serious observation since most entrepreneurs face a host of challenging and difficult ethical dilemmas in uniquely stressful business environments with institutional rigidities. The difficulty arises out of the continued challenging and changed new entrepreneurial activities (Fisscher *et al.*, 2005). Infact, Teal and Carroll (1999) affirm that independent-thinking entrepreneurs exhibit moral reasoning skill to successfully set up and operate their businesses. This is supported by Hannafey (2003) who notes that entrepreneurs face complex ethical problems related to basic fairness, personnel and customer relationships, honesty in communications, distribution dilemmas, and other challenges. Ntayi (2012) using data from Ugandan SMEs reveals that unethical behaviour is an inherent vice within the Ugandan trading community. This is supported by Ntayi *et al.* (2011), who assert that powerful buyers and suppliers tend to manipulate weak contractual partners. Hicks (2009, p. 49) observes that an entrepreneurial ethic contrasts strongly to the ethics codes prevalent in the traditional and current business ethics literature because entrepreneurs are self-responsible and productive individuals who create value and trade with others to win-win advantage. From the ongoing, we therefore hypothesize that:

H4. Entrepreneurship moral values and entrepreneurship capital are positively related.

Institutions framing, entrepreneurial human capital and entrepreneurial moral values

Research reveals that supporting institutions are essential for entrepreneurship start up to flourish (Willis, 1985). This, however, may require having an entrepreneurship human capital resource that can sense and intelligently circumvent these institutions without necessarily contradicting with the ethical values of society. This is necessary because the entrepreneur is defined by his or her integrity his importance is seen in terms of moral-conscience of the enterprise. As rightly put by Bucar and Hisrich (2001) entrepreneurs have a significant impact on determining the ethics for the future world's economy. This is even more urgent and critical since given the influence of emerging businesses on the economy of various nations. Given this observation, business startup is a result of the consequence of congruence between institutional framing and entrepreneurship human capital (Robinson *et al.*, 1991). The ensuing discussion leads to the development of the hypotheses that:

H5. Institutions framing positively influences entrepreneurial moral values.

H6. Entrepreneurial human capital positively determines the entrepreneurial moral values.

Methodology

Research design

This study adopted a cross-sectional analytical research design. To answer the research hypotheses generated in the literature review section, we undertook a large-scale comprehensive survey covering a random sample of SMEs 40 towns of Uganda with high population growth figures. This was done because entrepreneurial capital exists is believed to exist in areas with high population growth figures. Additionally, some scholars argue that entrepreneurship as a factor of production is scarce both quantitatively and qualitatively and unequally distributed among the population (Henrekson, 2007; Baumol, 1968; Machovec, 1995). We used the population estimates for the year 2011 from the Uganda Bureau of Statistics to identify eligible towns for the study. These geographical areas presented in descending order are Kampala 1,659,600; Kira 179,800; Gulu 154,300; Lira 108,600; Mbale 91,800; Nansana 89,900; Jinja 89,700; Mbarara 83,700; Entebbe 79,700; Kasese 74,300; Masaka 74,100; Soroti 66,000; Njeru 64,900; Kitgum 59,700; Arua 59,400; Mukono 59,000; Iganga 53,700; Koboko 51,300; Busia 47,100; Fort Portal 47,100; Kabale 44,600; Masindi 45,400; Tororo 43,700; Hoima 42,600; Mityana 39,300; Mpigi 38,800; Bukedea 36,700; Lugazi 35,500; Adjumani 34,700; Bugembe 33,100; Kalisizo 32,700; Pallisa 32,300; Yumbe 30,800; Hima 29,700; Luweero 29,500; Nebbi 28,800; Ibanda 28,500; Buliisa 28,100.

Population, sample size and sampling procedure

The study population consisted of 467,392 SMEs licensed by local authorities at division level (for Kampala) and municipal/town council/sub-county at district level. However, all the five divisions of Kampala district were covered. Consistent with Uganda Investment Authority (2008, p. 27), "the number of sampled districts from each region was based on the concentration of businesses". In this survey we sought a 95 per cent confidence level and computed a sample size of 11,105 SMEs. Lists of registered SMEs by local authorities were used to form the sampling frame.

A two-stage sampling procedure was adopted in identifying enterprises to be studied. First, cluster sampling technique using divisions (in the case of Kampala Capital City Authority), municipals and town councils in case of districts were used to identify enterprises to be sampled. As a general rule, the sampled SMEs were identified using business registers of divisions in the case of Kampala City Council Authority and municipals and town councils for districts. This was necessary since most SMEs are located in cities, municipals and towns. Second, after identifying these clusters, a simple random sampling technique using a table of random numbers was used to pick the required number of SME in each division or municipal or town council. All registered businesses were listed in alphabetical order and given identification numbers chronologically.

The selection criterion was based on the length of the largest numbers on the population list. We selected digits in groups of two, three and four for the numbers that were in tens, hundreds and thousands, respectively. Consistent with the rules of sampling, we only selected cases from the list for the sample which corresponded with the identified number from the table. Using this process we ignored all repeated numbers and numbers that were not on the population list. This process was continued until we achieved the desired sample size of 11,105. The questionnaire was pilot tested in Mukono and Jinja with samples of 371 and 372, respectively, by three independent researchers not involved in the main study. Part of the survey results were used to develop a paper on institutional framing for entrepreneurship which was reviewed and accepted for publication in Ntayi *et al.* (2013). Data were collected from owner-managers of independent SMEs. The response rate was fair, 40.5 per cent. In this paper we present results derived from a sample of 4,498 usable questionnaires.

Data collection instrument and measurement of variables

This study utilized a questionnaire to collect data from respondents. This questionnaire had both structured and open ended questions. All measurement items were derived from previous published studies, adapted and tested for validity and reliability. Cronbach α coefficients for all study constructs were above 0.75. In operationalizing institutional framing, we used the ideas of North (1996, p. 344) who defines institutions as "formal constraints (rules, laws, and constitutions), informal constraints (norms of behavior, conventions, and self-imposed codes of conduct) and their enforcement characteristics". North's ideas on institutions were mapped onto Scott's (2008) regulative, normative and cognitive pillars. We therefore followed the regulative, normative and cognitive classification of institutional factors proposed by Scott (2008) to design measurement items to tap institutional framing for entrepreneurship in Uganda. Extra item scales were obtained from Doing Business (2011), doing business survey. All item scales were anchored on the same five-point Likert scale.

Entrepreneurship capital is difficult to be measured since it cannot be directly observed. However, researchers have attempted to use various indicators like start-up rates or self-employment intensity to proxy it. This study adopted start up rate to measure entrepreneurship capital. Consistent with Audretsch and Keilbach, we compute entrepreneurship capital as the number of startups in the respective town or region relative to its population, which reflects the propensity of inhabitants of a region or town to start a new firm. Entrepreneurial human capital was measured using the human capital attributes of education, experience, knowledge, skills and on-the-job training, and other types of experience. These indicators have long been argued to be a critical resource for success in entrepreneurial firms (Florin *et al.*, 2003; Davidsson and Honig, 2003; Rauch *et al.*, 2005; Becker, 1964). The construct of entrepreneurship moral values was measured using a combination of item scales and ideas derived from Morris *et al.* (2002).

Findings

This section begins by providing descriptive statistics of the regions covered, the characteristics of the SMEs surveyed and the characteristics of SME owner managers. Next to be presented are the results that address the study hypotheses.

The study covered five regions of Uganda categorized as central, northern, eastern, western and southern. Results reveal that majority of the SMEs (36.7 per cent) were from the eastern region, followed by 25.3 per cent from the central region. 18.7 per cent of SMEs were from the western region while 18.5 per cent and 0.8 per cent of the SMEs were from the northern and southern regions of Uganda, respectively (Table I).

The types of businesses surveyed include retail and wholesale trade (32.1 per cent), hotel and restaurant (11.8 per cent), computer and electronics repairs (10.8 per cent), video library (6.2 per cent), metal fabrication (5.6 per cent), manufacturing (2.1 per cent), food processing (3.9 per cent) and others (27.4 per cent) (Table II).

As regards to the category of ownership, 69.3 per cent of the surveyed businesses were sole proprietorship. 20.5 per cent were partnerships, 5.9 per cent limited company (shares), 2 per cent limited company (guarantee), 1.1 per cent NGO and others (1.2 per cent) (Table III).

Region	Frequency	Valid %	Cumulative %
Central	1,140	25.3	25.3
Northern	830	18.5	43.8
Eastern	1,651	36.7	80.5
Western	840	18.7	99.2
Southern	37	0.8	100.0
Total	4,498	100.0	

Table I.
Regional distribution of SMEs surveyed

Table IV reveals that 38.2 per cent of the SMEs had been in operation for one to four years. 30.4 per cent, 19.2 per cent and 12.2 per cent of the businesses had been in operation for five to nine years, over ten years and less than one year.

As regards to the amount of money invested in business, 66.2 per cent and 19 per cent of the SMEs had invested 5 to <10 million Uganda Shillings and 10 to <20 million Uganda Shillings, respectively. 7.4 per cent, 3.0 per cent and 4.4 per cent had invested 20 to <30, 30 to <40 million and above 40 million Uganda Shillings (Table V).

SME category	Frequency	Valid %	Cumulative %
Retail and wholesale trade	1,442	32.1	32.1
Hotel and restaurant	532	11.8	43.9
Computer and electronics repairs	492	10.9	54.8
Video library	277	6.2	61.0
Metal fabrication	253	5.6	66.6
Manufacturing	93	2.1	68.7
Food processing	177	3.9	72.6
Others	1,232	27.4	100.0
Total	4,498	100.0	

Table II. Category of SMEs

	Frequency	Valid %	Cumulative %
Partnership	924	20.5	20.5
Sole proprietorship	3,115	69.3	89.8
Limited company (shares)	265	5.9	95.7
Limited company (guarantee)	88	2.0	97.6
NGO	50	1.1	98.8
Others (please specify)	56	1.2	100.0
Total	4,498	100.0	

Table III. Category of ownership for the SMEs

	Frequency	Valid %	Cumulative %
Less than one year	547	12.2	12.2
1-4 years	1,720	38.2	50.4
5-9 years	1,367	30.4	80.8
10 years and above	864	19.2	100
Total	4,498	100	

Table IV. Age of business

Investment amount	Frequency	Valid %	Cumulative %
5 to <10 million	2,978	66.2	66.2
10 to <than 20 million	855	19	85.2
20 to <than 30 million	332	7.4	92.6
30 to <than 40 million	133	3	95.6
40 and above	200	4.4	100
Total	4,498	100	

Table V. Initial amount investment in business

Results reveal that 55.9 per cent of the money invested in business came from personal savings. 19.5 of the funds were from money lenders, 12.4 per cent from the bank, 6.3 per cent from microfinance, 0.7 per cent from angel investor, 0.9 per cent from venture capital, 2.8 per cent from savings and credit cooperative organization and the remaining 1.5 per cent from other sources (Table VI).

Table VII reveals that 96.7 per cent of the SMEs employ six to 49 employees, 1.8 per cent employ 50-99 employees, 0.7 per cent employ 100-149 employees, 0.3 per cent employ 150-199 employees, 0.2 per cent employ 200-249 and 0.3 per cent employ over 250 employees.

Characteristics of SME owner managers

Table VIII reveals that 61.3 per cent of the SME businesses were started and owned by males compared to 38.7 per cent of the SMEs which are owned by females.

The age distribution of SME owner managers were as follows: 46.3 per cent were between 18 and 30 years of age, 37.5 per cent were 31-40 years old, 13.1 per cent were 41-50 years old and 3.1 per cent were over 50 years of age (Table IX).

	Frequency	Valid %	Cumulative %
Personal savings	2,513	55.9	55.9
Money lender	878	19.5	75.4
Bank	560	12.4	87.8
Microfinance	285	6.3	94.2
Angel investor	30	0.7	94.8
Venture capital	40	0.9	95.7
SACCO	124	2.8	98.5
Other	68	1.5	100
Total	4,498	100	

Table VI.
Source of funding

No. of employees	Frequency	Valid %	Cumulative %
1-5	3,166	70.4	70.4
6-49	1,185	26.3	96.7
50-99	80	1.8	98.5
100-149	33	0.7	99.2
150-199	14	0.3	99.6
200-249	7	0.2	99.7
Over 250	13	0.3	100
Total	4,498	100	

Table VII.
Number of employees

	Frequency	Valid %	Cumulative %
Male	2,758	61.3	61.3
Female	1,740	38.7	100
Total	4,498	100	

Table VIII.
Gender of the SME owner managers

Majority of the owner managers (51.1 per cent) had run their business for a period of zero to five years. 32.3 per cent, 10.8 per cent and 5.7 per cent had operated their businesses for six to ten years, 11-15 years and over 15 years, respectively (Table X).

61.7 per cent had gone through primary, O level and A level education. 20.6 per cent were diploma graduates. 14.8 per cent were university degree graduates. 2.8 per cent had obtained masters and other graduate qualifications (Table XI).

Findings relating to the study hypotheses

Entrepreneurship capital from the five regions of Uganda (eastern, northern, western, southern and central) was observed to be low (EntreCap) (Mean = 0.36896, SD = 0.05344).

Table XII presents means, standard deviations and Pearson correlations among the variables of the study. Results reveal that correlations between all study variables are significant and positive at the 0.001 level. Specifically, institutional framing for entrepreneurship is significantly and positively related to entrepreneurial human capital (Mean = 3.6450, SD = 0.56140, $r = 0.328$, $p \leqslant 0.001$); entrepreneurial moral values (Mean = 2.5135, SD = 0.43258, $r = 0.164$, $p \leqslant 0.001$); and entrepreneurship capital (Mean = 3.5896, SD = 0.58443, $r = 0.327$, $p \leqslant 0.001$). There is a significant positive correlation between entrepreneurial human capital and entrepreneurial moral

	Frequency	Valid %	Cumulative %
18-30	2,084	46.3	46.3
31-40	1,687	37.5	83.8
41-50	588	13.1	96.9
Over 50	139	3.1	100
Total	4,498	100	

Table IX. Age of SME owner managers

	Frequency	Valid %	Cumulative %
0-5 yrs	2,298	51.1	51.1
6-10 yrs	1,455	32.3	83.4
11-15 yrs	487	10.8	94.3
Over 15	258	5.7	100
Total	4,498	100	

Table X. Duration of service in the business

	Frequency	Valid %	Cumulative %
Primary	493	11	11
O level	1,309	29.1	40.1
A level	975	21.7	61.7
Diploma	928	20.6	82.4
Degree	666	14.8	97.2
Masters	64	1.4	98.6
Others	63	1.4	100
Total	4,498	100	

Table XI. Highest level of education attained values ($r = 0.300$, $p \leqslant 0.001$) and entrepreneurship capital ($r = 0.528$, $p \leqslant 0.001$). Additionally, entrepreneurial moral values and entrepreneurship capital are significantly and positively correlated ($r = 0.328$, $p \leqslant 0.001$) (Table XIII).

We entered control variables in model 1. These control variables were; the amount of capital invested in the SME businesses, the type of business and the regions where these businesses were located. These control variables were chosen because of their likely effect on entrepreneurship capital. Both the region under survey ($p \leqslant 0.050$) and the capital invested ($p \leqslant 0.001$) were significant predictors of entrepreneurship capital accounting for 1 per cent of the variance ($R^2 = 0.010$; $\Delta R^2 = 0.010$; $\Delta F = 0.000$). The ANOVA table indicates that the model as a whole is significant (F (3, 4,494) = 14.651, $p \leqslant 0.001$). Institutional framing for entrepreneurship was entered in model 2. Results revealed that institutional framing ($p \leqslant 0.001$) was a significant predictor of entrepreneurship capital contributing 10.1 per cent of the variance ($R^2 = 0.111$; $\Delta R^2 = 0.101$; $\Delta F = 0.000$) even when the effects of region under survey, type of business and how much amount of money invested in business were controlled for. The ANOVA table indicates that the overall model is significant (F (4, 4,493) = 140.154, $p \leqslant 0.001$). When entrepreneurial human capital is introduced in model 3, the F-ratio is 395.667 and its significance level is 0.000 (F (5, 4,492) = 395.667, $p \leqslant 0.001$), indicating that entrepreneurial human capital ($p \leqslant 0.001$) account for a significant proportion of variability in score for entrepreneurship capital, above and beyond the variability accounted for by the control variables and institutional components. The entrepreneurial human capital variable account for 19.5 per cent of the variance in entrepreneurship capital ($R^2 = 0.306$; $\Delta R^2 = 0.195$; $\Delta F = 0.000$). In model 4, the entrepreneurial moral values construct ($p \leqslant 0.001$), account for 2.7 per cent of the variance in entrepreneurship capital ($R^2 = 0.333$; $\Delta R^2 = 0.027$; $\Delta F = 0.000$). The overall model is significant (F (7, 4,490) = 320.571, $p \leqslant 0.001$).

Discussions and implications

Despite the persistent high rate of entrepreneurial activity in Uganda, this study finds low degree of entrepreneurship capital. Although these two metrics are close and appear to be similar, they should not be confused to mean the same thing as demonstrated above. This finding is not surprising since entrepreneurship capital is computed "as the number of startups in the respective region relative to its population, which reflects the propensity of inhabitants of a region to start a new firm" (Audretsch and Keilbach, 2004, p. 10) while the Total Entrepreneurial Activity Index combines two measures: the proportion of the adult population currently engaged in creating a new business and the prevalence of new firms that have survived the start-up phase (United Nations Conference on Trade and Development, 2004, p. 9).

Our findings reveal that the existing institutional set up for starting, managing and regulating businesses in Uganda, does not favour the rate at which businesses

Table XII. Means, standard deviations and zero-order correlations for the study constructs

	Means	SD	1	2	3	4
Institutional framing for entrepreneurship (1)	3.4432	0.47096	1			
Entrepreneurial human capital (2)	3.6450	0.56140	0.328***	1		
Entrepreneurial moral values (3)	2.5135	0.43258	0.164***	0.300***	1	
Entrepreneurship capital (4)	0.2996	0.05344	0.327***	0.528***	0.328***	1

Notes: $n = 4,498$. ***,**,*Correlation is significant at the 0.001, 0.01 and 0.05 levels, respectively (two-tailed)

Model	Unstandardized coefficients B	SE	Standardized coefficients β	t	Sig.	Collinearity statistics VIF	R^2	ΔR^2	Adjusted R^2
1. (Constant)	3.368	0.028		118.984	0.000				
Region under survey	0.016	0.008	0.029	1.962	0.050	1.002			
Type of business	0.000	0.003	−0.002	−0.104	0.917	1.001	0.010	–	0.009
How much amount of money has the business invested?	0.052	0.008	0.093	6.281	0.000	1.001			
2. (Constant)	2.045	0.064		31.798	0.000				
Region under survey	0.015	0.008	0.028	1.971	0.049	1.002			
Type of business	−0.003	0.003	−0.016	−1.155	0.248	1.003	0.111	0.101	0.110
How much amount of money has the business invested?	0.030	0.008	0.054	3.824	0.000	1.016			
Institutional framing for entrepreneurship	0.398	0.018	0.321	22.62	0.000	1.017			
3. (Constant)	0.954	0.065		14.756	0.000				
Region under survey	0.009	0.007	0.016	1.324	0.186	1.003			
Type of business	−0.004	0.003	−0.018	−1.473	0.141	1.003			
How much amount of money has the business invested?	0.010	0.007	0.018	1.424	0.154	1.022	0.306	0.195	0.305
Institutional framing for entrepreneurship	0.213	0.016	0.171	12.963	0.000	1.132			
Entrepreneurship human capital	0.488	0.014	0.469	35.504	0.000	1.129			
4. (Constant)	0.598	0.069		8.729	0.000				
Region under survey	0.009	0.007	0.016	1.329	0.184	1.003			
Type of business	−0.003	0.002	−0.015	−1.204	0.229	1.004			
How much amount of money has the business invested?	0.005	0.007	0.010	0.772	0.440	1.025	0.333	0.027	0.332
Institutional framing for entrepreneurship	0.198	0.016	0.159	12.255	0.000	1.137			
Entrepreneurship human capital	0.439	0.014	0.422	31.449	0.000	1.211			
Entrepreneurial moral values	0.236	0.017	0.174	13.599	0.000	1.108			
Durbin-Watson = 1.709									

Note: [a]Dependent variable: entrepreneurship capital

Table XIII. Hierarchical regression model coefficients[a] for predictors of entrepreneurship capital are established and grow. Uganda generally lacks a positive regional milieu of agents and institutions to encourage entrepreneurs to start new firms. As a result some entrepreneurs who attempt to start new businesses fail to comply with numerous, tedious and often confusing institutional requirements and close shop soon or later. This is supported by Doing Business in Amore Transparent World (2012a, p. 15) which asserts that, starting a business in Uganda requires 16 procedures, takes 34 days and costs 84.5 per cent of income per capita. Additionally, Doing Business (2011) reveals that Uganda made it more difficult to start a business by increasing the trade licensing fees. Respondents revealed that business information related to starting businesses, incentives available to entrepreneurs is not readily available to them. In this study we recommend local and regional governments to set up a one-stop shop centre based on up to date and modern technologies to simplify procedures.

Institutions have tended to encourage a group of entrepreneurs to invest entrepreneurial effort in circumventing them thereby reducing entrepreneurial risk. Aggressive entrepreneurs negotiate and renegotiate their ethical positions so as to establish a foothold in current and future business leaving the apathetic entrepreneurs knocked out by phobia and/or choosing to close down and quit the profession in search of paid employment. The prevailing institutional setting encourages ethical compromises or destructive behaviour creating a difference between venture failure and survival. Such a decision is arrived at, in complex and often contradictory ethical situations that require openness and compliance amidst poor performance and closure. As a result, stringent and rigid institutional framework directs entrepreneurs into non-productive and destructive entrepreneurship thereby compromising the entrepreneurial moral values. This partially explains the low-entrepreneurship capital and the persistent high unemployment rate in Uganda which averages 4.20 per cent.

The ongoing discussion suggests that institutional set up contributes to our understanding of entrepreneurship capital in Uganda. This finding partially supports the finding by Namatovu *et al.* (2010) who found the average rate of new businesses up to 42 months old between 2003 and 2010 to be at 19.9 per cent while the rate of established business more than 42 months old between 2003 and 2010 stood at 19.86 per cent. This, however, contradicts the findings for the rate (58.925 per cent) at which entrepreneurs expects to start a business in the next three years between 2003 and 2010 (Namatovu *et al.*, 2010). This is unfortunate since scholars argue that the presence of entrepreneurship capital promotes regional growth and employment (Acs and Armington, 2004; Card, 1999; Angrist, 1990; Behrman and Rosenzweig, 1999). Extant literature reveals that firms are a seedbed of new activities from which new and successful businesses and industries emerge (Beesley and Hamilton, 1984) thereby promoting innovations and employment.

This study finds entrepreneurial human capital to be another important construct in the development of entrepreneurship capital. This finding is consistent with Barreto (1989, p. 54) who revealed that "the founding and development of firms depend to a large extent on the entrepreneurial qualities of the individual entrepreneur" (Barreto, 1989, p. 54). Consistent with Schultz (1980), this study supports the finding that generalized forms of human capital (formal schooling) affect entrepreneurship capital positively. The same study reveals that specific focused and sustained entrepreneurial skills are needed to support entrepreneurship capital. However, since entrepreneurship decisions vary at different stages of business establishment, entrepreneurship human capital is not fixed but dynamic. This is mainly because it is partially derived from first hand direct exposure to entrepreneurial activity (learning by doing) in product development, marketing, risk judgment and business-relevant social network connections. Infact, this study reveals that 88 per cent of the entrepreneurs surveyed had worked with a business firm before starting their own enterprises. This helped them to accumulate the knowledge, skill and network required for the establishment and sustenance of their enterprises. Entrepreneurial learning-by-doing determines the nature of skills gained depending on the experience gained. This means that the distribution of skills in the population determines the type of business and the rate at which businesses start-up irrespective of returns, thus creating a human capital lock-in effect.

The abundance of low-skill, self-employed individuals in Uganda most of whose enterprises grow little could be explained by the human capital lock in effect. Entrepreneurs without any prior learning-by-doing have to learn very fast to establish a foothold and sustain their operations in an industry. We therefore recommend that government works on institutional framework to allow transfer of entrepreneurial human capital. This includes but not limited to formation of skills through family units (households), formal educational institutions like primary schools, secondary schools, technical training institutions and universities. There is need to build specialized technical training institutions for the transfer of entrepreneurial human capital. These programmes should focus on transferring entrepreneurial skills. There is need to provide an opening to providing a more intensive, sustained mix of direct experience and mentorship from more experienced and successful entrepreneurs.

Conclusion and recommendations

Conclusion

This research finds that institutions framing generalized forms of human capital entrepreneurial ethics moral values affect entrepreneurship capital positively. This paper creates a framework for predicting entrepreneurship capital in Uganda. We strongly believe that entrepreneurship development needs to have a holistic regional entrepreneurship capital approach which requires systemic changes in key policy areas.

Recommendations

We therefore recommend that:

(1) Government should provide a comprehensive SME and/or entrepreneurship policy simplifying formal procedures of doing business by SMEs. This should reflect positive changes in regulatory business institutions. The proposed policy change should be accompanied by comprehensive regional training programmes to influence institutional framing for entrepreneurs. Because of regional differences in development, regions should be encouraged to adapt institutions by introducing waivers for some legal requirements for a period of time and encourage incentives for regional businesses to grow. Instituting a regional milieu of taxes, procedures, etc. would encourage business set ups.

(2) There is need for regions to provide modern and reliable infrastructural support to entrepreneurs. This support should be in terms of business training, incubation parks, advisory services, reliable energy supply, applied research and development services, technology, free and simplified business registration facilities and market facilitating institutions like the certification.

(3) ICT facilities and infrastructure and internet facilities aimed at allowing diffusion of innovation, access to technology and information be set up by

government. Establishing regional or district ICT backbone would encourage speeding up establishments of businesses in various regions of Uganda.

(4) There is need to provide incentives to entrepreneurs to form networks and partnership with government supporting departments and regulatory agencies.

(5) In order to provide generalized forms of human capital through (formal schooling), there is need to include entrepreneurship course in all school curriculum right from primary to university levels and technical colleges. Government should provide a mechanism for teaching entrepreneurship at community and household level as well so as to promote business startups. Provide direct exposure to entrepreneurial activity (learning by doing) through incubation parks. Encourage dynastic transitions (heterogeneous ex-ante endowments of innate EHC). Regions in Uganda need to provide high-level entrepreneurship-specific skills and knowledge (selling, negotiating, product development, risk judgment). Provide entrepreneurial ethics in all school curriculum

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