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The Evolution of Urban Entrepreneurship in Zambia

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Abstract

Zambia is a former British colony. It gained independence in 1964 and now ranks as one of the middle lower income countries even though it dropped from a ranking at independence. This history has had a bearing on entrepreneurship development in the country. This chapter set out to discuss urban entrepreneurship in Sub-Saharan Africa (SSA) in general, and Zambia in particular. The chapter discusses the socio-political factors that have shaped the entrepreneurial landscape of Zambia, and the status quo of entrepreneurial activities in four main urban and large cities in the country. The last section provides an empirical show case of factors influencing the location decision of entrepreneurs in one of the urban cities, Kitwe. The lessons learned from this chapter are: first, historical events in the urban, institutional environment shape entrepreneurial activities of the present day; second, the four main urban areas in Zambia have developed distinctive types of entrepreneurial activities; and third, besides institutional factors, entrepreneurs make deliberate, personal choices for establishing firms in certain urban locations, primarily driven by the attitude towards avoiding tax, perceived levels of institutional corruption, size of the informal business activities, and the overall satisfaction and comfort of the entrepreneur in having the business in the residential areas where they reside.

List of key words

Evolution, cities, developing country, small business, Sub-Sahara Africa, urban areas, Zambia.

1. Setting the scene: Entrepreneurship in Sub-Saharan Africa

This chapter sets off to discuss four research aims which are: 1) an introduction on entrepreneurship in Sub-Saharan Africa (SSA), the remainder focusses on 2) an exploration of the socio-political factors that shape the entrepreneurial landscape of Zambia (the focal SSA-country); 3) a discussion of the status quo of entrepreneurial activities in the largest urban areas in Zambia; and 4) a presentation of a case study of factors influencing location decisions of entrepreneurs in Kitwe, a city in the Copperbelt Province of Zambia. Thus, the research question for this chapter is “*What factors influence business location decision of entrepreneurs in urban areas?*”

Understanding the evolution of entrepreneurship in urban areas can help entrepreneurs to identify more opportunities to start new businesses. The chapter also provides insights, and a richer understanding to policy-makers, scholars, educators, and regulators on enablers and constrainers of urban entrepreneurship in SSA.

1.1 Defining entrepreneurs(hip) in SSA

The word “context” (derived from the Latin *contexere* meaning “to weave together” (Van Gelderen & Masurel, 2012) is important in entrepreneurship research: it helps to understand, how and why entrepreneurs recognise opportunities and others do not, and why the outcomes of entrepreneurial activities vary across different countries, regions, and other contexts (Baker et al., 2005). Context has been debated in terms of *who*, *where*, and *when* (Whetten, 1989). The “*where*” and the “*when*” are of interest for entrepreneurship research (Welter, 2011), because the two context specifications influence the “*who*”, i.e., the entrepreneur. In regard to the “*where*” and the “*when*”, the context has been researched at different levels of analyses, such as the business level (i.e., industry, market), the social level (i.e., network, family), the institutional level (i.e., culture and society), and the spatial level (i.e., geographical environments) (Johns, 2006; Welter, 2011).

Traditionally, entrepreneurs are seen as economic actors and their actions as the determinants of economic development (Schumpeter, 1934; Kirzner, 1974; 1997). The creation of organisations (in this chapter also referred to as “businesses”) is called entrepreneurship and those who create them are the entrepreneurs (Gartner, 1989). “Entrepreneurial activities” entail all activities that revolve in and around creating organisations, for example: starting, running and quitting an organisation. Entrepreneurship occurs all over the world, including SSA’s emerging context: an underdeveloped region of 46 countries in which 46% of the people is living in extreme poverty (United Nations, 2018). Many SSA’s factor-driven economies are

distinguished by a lack of infrastructure, severe poverty, relatively low life expectancy and government and market failure (Organization for Economic Co-operation and Development, 2016; Rivera-Santos et al., 2015). Such resource-constraints contexts create low market entry and exit barriers (Khavul et al., 2009), which is a condition that brings forth opportunities for innovative entrepreneurs (Eijdenberg et al., 2018; Rivera-Santos et al., 2015).

Some of the opportunities are seized by people who create and (temporarily) run so-called “micro and small enterprises” (MSEs) or “small and medium-sized enterprises” (SMEs). What differentiates MSEs from SMEs is that MSEs are “one-person operations, poorly managed, sometimes temporary, less productive, and undercapitalized” (Kiggundu, 2002, p.248). Additionally, MSEs are often informal and the last resort of the poor. SMEs, on the contrary, are more viable, sustainable and generating more income and employment. Overall, both MSEs and SMEs are small businesses and those who create and run them are referred to as, “small business owners” (i.e. the type of entrepreneurs in this chapter): “(a person or group of people) who creates a new business (for profit) and employs at least one other paid employee” (see also Kirkwood, 2009, p. 350). High numbers of small businesses are very typical for SSA economies as this region is characterised by a small large-scale sector and a large small-scale sector (McDade & Spring, 2005).

Entrepreneurs in SSA-countries use contextual opportunities that are instrumental for making decisions and implementing what they perceive to be an innovative product or service (Rooks et al., 2014). Many of the innovations are a “design innovation process in which the needs and context of citizens in the developing world are put first in order to develop appropriate, adaptable, affordable, and accessible services and products for emerging markets” (Basu et al., 2013, p. 64). Such products and services are called “frugal innovations”. Frugal innovations are cheap, easy to use, easy to access/purchase, portable, and both economically and socially sustainable (Basu et al., 2013; Rao, 2013). Typical frugal innovations in SSA include self-made mosquito nets; home-built water purifiers; and various self-made utensils, games, and practical applications (e.g., floor brushes, chessboards, pans, cutlery) (Eijdenberg, 2016).

Frugal innovations and other basic necessities are made and sold by many entrepreneurs dwelling in urban areas in SSA. Although the term “urban entrepreneurship” has hardly been defined as such, it clearly concerns entrepreneurship taking place in the urban milieu contexts (e.g., metropolises, cities, towns, residential areas) which are typically characterised by their institutional challenges (in contrast to more remote, rural contexts), such as: longstanding business traditions, high competition, wealth inequality, (in)formality, crime and other social

and economic difficulties (Eijdenberg, 2016; Sriram & Mersha, 2006; Jessop & Sum, 2000). The contrast between rural and urban areas has become larger in recent years. In larger cities, the traditional African collective culture has changed into a more individualistic culture (Rooks et al., 2014), because of society's modernisation, internationalisation, rapidly growing population and a stronger diversity with interacting ethnic groups. In light of that, much research in urban contexts in SSA has for long focused on many different aspects of entrepreneurs(hip) with examples of studies in Tanzania (e.g., Eijdenberg et al., 2018; Lyons et al., 2014), Uganda (e.g., Bewayo, 1995; Langevang et al., 2012), Rwanda and Burundi (e.g., Eijdenberg et al., 2015; 2017), Namibia and Zimbabwe (e.g. Frese et al., 2007; Krauss et al., 2005), South Africa (e.g., Naudé et al., 2008; Krauss et al., 2005) and Zambia (e.g., Choongo et al., 2018; Mwiya et al., 2018; Choongo, 2017; Choongo et al., 2017, 2016).

Urban areas, seen as distinctive institutional contexts that are intimately linked with entrepreneurial activities, has gained increasing interest from the scholarly community in the last few decades (Bruton et al., 2010). Institutions entail notions of culture, socio-political factors, traditions, history and economic incentives, which organise social interaction by constraining and enabling entrepreneurial activities (Greenman, 2013). The main idea of institutional embeddedness of entrepreneurial activities is that prevailing values, rules, expectations and material infrastructure in countries often shape entrepreneurial activities (Jain & Sharma, 2013). SSA's urban areas have become strong attractors of entrepreneurial activities as remote, some rural areas are becoming increasingly deserted because of the lack of job opportunities.

This chapter focuses on entrepreneurial activities in the context of urban areas in Zambia. The next section is a discussion of the socio-political factors that shape the entrepreneurial landscape of Zambia. This discussion paves the way for a more tailored discussion of the current status of entrepreneurial activities in the largest urban areas in Zambia. The chapter closes with a showcase: empirical evidence of factors influencing location decisions of entrepreneurs in Kitwe.

2. Socio-political factors that shape the entrepreneurial landscape of Zambia

Zambia has an estimated population of around 16 million. It is typified as an “emerging country” with increasing gross domestic product (GDP) growth rates per year and an average GDP per capita of USD 4000, while high inflation rates on consumer prices were recorded in 2017, at around 6.6%. More than half of the country's population live below the poverty line and is younger than 17 years old. The urbanisation rate is high at around 43.5%, a typical factor

comparable with many SSA-countries (Central Intelligence Agency, 2018). The mining industry is the main economic activity and has considerably contributed to the economic and social development of the country since 1928 (Lungu & Kapena, 2010). Mining activities are mainly concentrated in the Copperbelt Province and North-western Province. Other sectors significantly contributing the growing economy include agriculture, construction, oil processing, food processing, manufacturing, and textiles.

Despite the fact that mining is the largest industry in the country (and will therefore receive most attention in the sections hereafter), the majority of the people work as farmers. We break down the discussion on history in three large section: 1) the part during British rule until 1964; 2) the part since the country's independence in 1964 until the 1980s-90s; and "modern times" since the 1980s-90s to the present day.

2.1 Brief historical overview

During British rule (1880-1964), the country's economic mainstay was mainly farming (Beveridge & Oberschall, 1979). Mining activities began in the 1920s and two private companies namely, Anglo-American Corporation and Roan Selection Trust owned the copper mines until 1969. The British government passed a legislation that restricted enterprise ownership by local people. Additionally, there was an introduction of taxes which forced people to look for employment to ensure that they made enough money to pay the 'hut' tax and to feed their families. This greatly inhibited the development of a strong entrepreneurial culture in Zambia. Thus, most of Zambia developed as labour enclaves for the copper mines.

In 1964, the country got independent. Following a change in ideology, to humanism (as socialist ideology that was meant to hold the nation together), the two private mining companies were nationalised by the state and renamed as Nchanga Consolidated Copper Mines (NCCM) and Roan Consolidated Copper Mines (RCM) respectively in 1969. Between 1964 and 1990, there were still hardly any entrepreneurial activities. This was because Zambia's economy was led by the public sector which discouraged people to go into entrepreneurship. There was also a threat of nationalisation of a firm if a firm grew to a certain size. Hence, this explained why there were very few entrepreneurial activities among the Zambian citizens during the first republic under the United National Independence Party (UNIP). UNIP was the political party which led Zambia to independence from colonial rule.

In 1982, the two mining companies were merged into one state-owned company called the Zambia Consolidated Copper Mines (ZCCM) (Fraser & Lungu, 2007). Later on, in 1991, a change of government kicked-off an era of change. A new government, led by the Movement for Multi-Party for Democracy (MMD), adopted a liberal policy framework that was aimed at

helping the recovery of Zambia's economy. The new policy encouraged entrepreneurial activities among Zambians even though the pace was very slow due to low entrepreneurial activities in the past (MCTI, 2009). Since this new government supported private sector investment, it embarked on a privatisation programme aimed at preventing the collapse of the state-owned companies and bringing in investment (Central Intelligence Agency, 2018). The new government sold the mining companies to investors from various countries origin including Britain, Canada, Switzerland and new players from China (Fraser and Lungu, 2007; Lungu & Kapena, 2010).

The privatisation programme was meant to encourage the private sector investment and diversification of the mining sector (Graig, 2007). It was envisaged that the new mine owners would support local businesses and help in the development of local entrepreneurs by awarding them contracts to supply goods and services. Through this arrangement, local SMEs would sell various goods and services to the mines. This led to the rise in entrepreneurial activities and the increase in the number of SMEs selling goods and services to the mining sector. It is important to note that in the past, there had been a number of policies and initiatives to support entrepreneurship.

2.2 Supporting activities in modern times

Since the early 1980s, the Government of Zambia recognised the importance of SMEs and contribution that small firms would make to the urban and rural economy. Following this understanding, the Small Industry Development Organisation (SIDO) Act of 1981 was passed and later the Small Enterprise Development Act in 1995. The two Acts were meant to help SMEs with infrastructure, business skills, training and formation of cooperative unions to help in bulk purchases of inputs for resale and distribution. Nevertheless, the resources that government was giving were reported to be inadequate. Later, SIDO was replaced with Small Enterprises Development (SED) Act of 1996. However, this Act did not guarantee adequate support to small businesses that existed and currently, the Ministry of Commerce Trade and Industry (MCTI) has a policy aimed at supporting and encouraging small businesses (MCTI, 2009). Small business support was also provided through the National Development Plans starting with the Fourth National Development Plan (188-1993). The institutional interventions of the 1980s and 1990s yielded limited results. This made the government to establish the Zambia Development Agency (ZDA).

ZDA has taken the initiative to start support programs like the “Building Young Futures Programme” to help existing and potential entrepreneurs by assessing their ideas, sensitising

them on the importance of owning their own businesses, linking them to buyers and sellers as well as mentoring them. This has been done with the aim of bringing in new jobs and wealth as these enterprises are likely to grow and employ more people.

Zambia continues to formulate initiatives aimed at encouraging entrepreneurial activities through training institutions. The Copperbelt University has taken the initiative to introduce the subject of entrepreneurship as an elective in most faculties so as to encourage more young people to take up the subject with the aim of making them realise the importance of entrepreneurship so that they can later make a decision after graduation as to whether they want formal employment or they can be innovative and start up their own ventures. Apart from these initiatives, the Government of the Republic of Zambia has been promoting diversification.

2.2.1 Diversification

Diversification is about spreading risk in investment. In the business world, the major actors in the diversification strategy are the investors, guided by the profit objective. These investors may be individuals, institutional or corporate investors. In economic development terms however, the major players in the diversification game include the state or the government. The State's objective is to structure of the economy using incentives to move or attract investment between sectors. It is this diversification from government perspective which is pursued. However, in Zambia's current economic dispensation, the role of the entrepreneur guided by the profit motive in the process of diversification is critical.

The strategy of diversifying Zambia's economy has been on the books from the early days of independence. Zambia inherited an industrial structure, which was highly dependent on the Southern Rhodesian industrial complex. During the First National Development Plan (FNNDP) period, it was realised that diversification was necessary and would necessitate structural change in the economy (Republic of Zambia, 1966). Therefore, from the point of view of the FNNDP, two major diversifications were necessary:

- (a) The first form of diversification focused on the production of a wide variety of both food and cash crops. The aim was to achieve a considerable degree of self-sufficiency in the production of both food and cash crops.
- (b) The second was the diversification strategy that took the form of import substitution. This was to involve production of goods in Zambia that at the time were being imported. This strategy was to apply to large-scale industries such as iron and steel, nitrogenous fertiliser and sugar and to a range of consumer goods, which at the time were being imported.

After FNDP, Zambia underwent a number of similarly called plans focusing on economic development by diversification; privatisation of the private sector; and creating an open, liberal market economy. Yet, all of these plans revealed that government was going to be strongly involved in the implementation of the diversification strategies. With one major actor formulating policy as well as playing the role of implementer, the strategy of diversification was going to be relatively easy to implement. The approach removed a fundamentally inherent difference in focus between policy formulation and project or program implementation. Despite this advantage, the government still failed to change the structure of the economy. The state became the major player in establishing manufacturing concerns. Unfortunately, regulatory measures dissuaded entrepreneurship development. Nevertheless, there is a new wave of diversification. It is at national scale.

The government has established institutions such as the Multi-Facility Economic Zones under the Zambia Development Agency (ZDA) which require full operationalisation to take on the challenge of diversification. Local entrepreneurial participation in these zones should be emphasised. In addition, three important issues must be recognised as the country endeavours the diversification challenge. These include the value addition challenge, the role of local entrepreneurs and the role of education and research institutions in the process of diversification. These institutions are located in urban areas.

3. The status quo of entrepreneurial activities in the largest urban areas of Zambia

As mentioned before, urbanisation is a recent and decisive trend in SSA. Urban areas function as magnets for people seeking jobs, as rural and remote areas are failing to do so. In factor-driven economies in SSA, such as Zambia, large small-scale sectors dominate the small large-scale sectors and these are especially located in urban areas.

The small large-scale sector mostly manufactures furniture, rubber, leather products, plastics, pharmaceuticals, beverages, clothing, and soaps/toiletries, or operates in the construction, mining or transportation industry (Adenikinju et al., 2002; Schulpen & Gibbon, 2001). The majority of the large-scale businesses in SSA are owned by foreigners, such as Asians and Europeans, as opposed to the indigenous peoples (McDade & Spring, 2005). Especially in southern Africa (this includes Zambia), South African organisations (e.g. Hungry Lion, Shoprite, and Woolworth) are well-represented.

Two major problems are typical for SSA's MSEs and SMEs: i.e. the problem of copy-behaviour, which involves imitative as opposed to innovative businesses; and the problem of a "limited ability to compete on price and quality in a liberalized economy" (Kristiansen et al.,

2005, p. 366). This leads to millions of MSEs retailing all-and-the-same products, as mentioned previously, from the small large-scale sector. In most of SSA's urban areas, the MSEs are found on the streets (i.e. street vending of food, cloths, utensils and handicrafts), often moving around (in "mobile" self-built premises, such as wooden boxes) to avoid government authorities and to seek for better locations with just a little higher chance on increasing sales. Even though their motivations of being an entrepreneur may change of time (e.g. a few of them started out of necessity and were able to stand out, make profit and turn their necessity-motivations into opportunity-motivations), the people behind businesses are typically necessity-motivated as opposed to opportunity-motivated (Eijdenberg, 2016).

Moreover, another observed factor in SSA-countries such as Zambia is the high number of female entrepreneurs: "hundreds of millions of poor people in developing countries make their living as micro entrepreneurs: as farmers, street vendors and home workers, and in a range of other occupations, a large share of them women" (World Bank, 2004, p. 33). The reason for the high numbers of female entrepreneurs is generally related to increasing household income, or poverty. The men are not able to bring home sufficient income to sustain the family, and therefore, the women are forced to start and run MSEs.

Governments of SSA-countries that fail to create sufficient, well-paid jobs for their entire workforce—that is, for both men and women, regardless (cultural) gender disparities in the working domain—make necessity-motivated entrepreneurs use creative responses to institutional constraints. Such responses are traditional entrepreneurial strategies (e.g. competition based on low price or based on differentiation), as well as, developing inner strength, joining associations, giving back to communities and skillfully managing relations with authorities (Eijdenberg et al., 2018).

All of the above-mentioned trends and factors are typically for urban areas in SSA-countries, including Zambia. Yet, differences do exist between one urban area and the other. In Zambia, four major urban areas with substantial entrepreneurial activities can be identified: Livingstone, Lusaka, Kitwe and Ndola. Livingstone is located in the southern part of Zambia and is the tourism capital of Zambia; entrepreneurial activities are mostly linked to tourism. Lusaka city is found in the Lusaka Province, it is the capital city of Zambia; entrepreneurial activities are most linked to government and services. Kitwe and Ndola are located on the Copperbelt Province where the economic mainstay is mining, with entrepreneurial activities linked to it. The next sections briefly describe each of the previously-mentioned cities.

Livingstone city is the tourist capital of Zambia. The city has been a tourist destination since the 19th century. Livingstone was named after the Scottish explorer and missionary Dr.

David Livingstone, who was the first European to see the Mosi-Oa-Tunya falls which he named as the Victoria Falls after the Queen of England then in 1855. Tourist attractions include national parks, safaris and museums. Entrepreneurial activities revolve around tourism and hospitality (Prominent among the activities are bungee jumping, elephant rides, helicopter flights and wild water rafting). The city became the capital of Zambia in 1911 after the shift from Kalomo until 1935 when the capital city was moved to Lusaka. The city is located in the south part of Zambia and shares borders with Namibia, Botswana and Zimbabwe (Livingstone City Council Strategic Plan, 2010).

Lusaka is the capital city of Zambia, and is situated in Lusaka Province. The population of Lusaka is dynamic due to urban migration and being the market centre for the whole country, therefore, it keeps on increasing in size every day (Lusaka District Situation Analysis Report, 2015). The majority of the city's people are engaged in entrepreneurial activities of various types ranging from small scale manufacturing and fabrication activities to high level businesses in manufacturing and Financial services. Equally, prominent are MSEs popularly known as "Tuntamba" and street vending for which the majority earn an income. Lusaka has a population of 1,800,000 out of which only 120, 200 people work in formal establishment (DSA, 2008). Thus, only a small fraction of the population (6.67%) in the city is in formal employment. One of latest developments in the city is the development of shopping malls which are providing competition to the local businesses. Being the capital city, Lusaka is the leading financial centre. Central bank and headquarters of leasing, micro-credits companies, local banks and international banking institutions are located in Lusaka (Lusaka District Situation Analysis Report, 2015).

Established in 1951, Kitwe's major economic activity is copper mining, thus, attracting all sorts of entrepreneurial activities related to this industry such as transportation, recycling of raw materials and used goods. The city has two compact and well laid out commercial centres with shopping facilities including large privately owned stores and many medium but well stocked shops dealing in various goods. Kitwe used to be the most industrialised district in the Copperbelt Province. However, most of the manufacturing companies have closed down due to unfavourable competition with companies in the sub region, especially South African companies. As a result, a significant number of people have lost jobs due to retrenchments and have been pushed into entrepreneurial activities such as trading and provision of services (Kitwe District Situational Analysis Report, 2011). One of the latest developments in the city is the increase in the number of shopping malls which have increased competition for the local small shop holders.

Ndola is the third largest city of Zambia; the city is the Provincial Headquarters of the Copperbelt Province. During the flourishing copper mining era of the 1960s-1970s, Ndola became the leading commercial, industrial and distribution centre. However, the city experienced a period of economic slump due mainly to the government's economic liberalisation and privatisation policies of the 1990s. The economic activities of Ndola have gradually increased as evidenced by a number of infrastructure development programmes being undertaken and a fast growing extractive industry that has led to the setup and expansion of companies like Zambezi Portland Cement, Lafarge Cement, Ndola Lime, Nelcant Lime Company and Dangote Cement (Ndola District Situation Analysis Report, 2015). Entrepreneurial activities in Ndola include vegetable farming, poultry, fish production, bee keeping and services (Ndola District Situation Analysis Report, 2015).

The four cities represent the most prominent forms of entrepreneurship in Zambia. While Livingstone is dependent in tourism and hospitality industry, Lusaka being the major administration centre of the country attracts entrepreneurial activities in trading and service provision. The two Copperbelt towns attract entrepreneurial activities related to mining and supply of agricultural products to mining related employment. From the previous discussion of entrepreneurial activities in urban areas, highlighting four important cities in Zambia, it can be concluded that location can be a determining factor in establishing a business. Each urban area has specific characteristics that attract entrepreneurs. Besides the geographical and socio-economic factors that shape a location, entrepreneurs can also have certain personal factors may influence their choice of the location of their business within a specific urban area. In the next section, the individual factors influencing the location decision of entrepreneurs in urban areas is empirically explored.

5. Factor influencing location of MSEs in urban areas: The case of Kitwe

Entrepreneurship has been considered as a cause and outcome of the geographical distribution of economic activity (Plummer & Pe'er, 2010). Entrepreneurs seek to fulfill unmet market demands in an effective and efficient way through local innovations. As such, the choice of location, be it region or neighbourhood within a city may influence the entrepreneurial success. Choice of location has a potential to unlock an entrepreneur's alertness and ability to discover profitable opportunities. Each location has its own unique collection of profit opportunities that entrepreneurs may discover as a result of how markets coordinate knowledge that is specific to time and place (Andersson, 2005). The conditions conducive to entrepreneurial activity vary across space even within national boundaries. In this section, we present a case study of Kitwe

city in Zambia, an urban area with abundant entrepreneurial activities. The case highlights the factors that influence location of MSEs in low cost residential (i.e. typified as “urban” in this chapter) areas. Residential characteristics can be an important barrier or enabler to locating an MSE in a residential area (Reuschke, 2016).

5.1 Factors that influence business location in residential areas

In general, the decision of where to locate an MSE involves making trade-offs in maximising potential economies of scale and minimising costs such as rent (Dubé et al., 2016). The objective of making such trade-off decisions is usually profit optimisation by the entrepreneur by targeting cost minimisation (Daniel et al., 2014, Mason et al., 2011). One way of achieving this is by locating a business in an area that provides competitive setup and operational costs. The use of residential areas can considerably reduce start-up and operational costs. Availability of adequate space within the residential area is one of the primary cost related reasons for locating a business in a residential (Vorley & Rodgers, 2012). Entrepreneurs who have access to adequate, flexible space within a residential area are likely to locate such businesses in that space. Access to housing can provide financial security and space as well as the flexibility needed for entrepreneurship (Reuschke, 2016).

The majority of residents in low income residential areas in Kitwe became engaged in necessity-motivated entrepreneurship after job losses due to the privatisation of copper mines in the 1990s. Most of the former employees were compensated with home ownership schemes and cash benefits. This made them have some form of startup capital and an area to trade from (Mususa, 2010). As a way of reducing costs, homeowners engage in mixed land use for both business and residential dwelling. Entrepreneurs may consider their businesses too small (i.e. the MSE-type of business) to support of cost separate premises away from their residence. Additionally, locating a business at the residence reduces the security risks. Therefore, we hypothesise that:

Hypothesis 1 (H1): Cost considerations have an effect on the decision to locate MSEs in residential areas.

One of the reasons African entrepreneurs choose to operate in the informal economy is the administrative difficulties and cost to properly register and operate a licensed business (Khavul et al., 2009). MSEs are likely to exist where the costs of formalisation reduce the profit potential of the business. Such formalisation include registration to tax and local authorities. Some of the factors that have been identified as leading to increase the numbers of MSEs established are taxes, regulatory discretion and cost of market entry (Monteiro & Assunção,

2012, Williams et al., 2016). Low income residential areas offer MSEs lower costs for startup and market entry because of the weaker legal and regulatory enforcement that exist in such locations. Tax administration and collection from the informal sector in high density, low income areas tend to stretch the tax authorities (Dube, 2014). Further, locating a business in such areas may lead to lower risk of detection by the tax authority. Therefore, high density, low income areas may act as tax avoidance havens and attract MSEs. Therefore, we hypothesise that:

Hypothesis 2 (H2): Desire to avoid tax has an effect on the decision to locate MSEs in residential areas.

Lack of access to alternative commercial places can also influence the decision to locate MSEs in residential areas (Mason et al., 2011). Commercial places tend to be expensive and in high demand in urban areas. The lack of capacity by the planning authorities, backlogs in land administration and weak land delivery systems have resulted in corruption in the land allocation systems in Zambia's urban areas (Chitonge & Mfunne, 2015, Taylor & Thole, 2015). MSEs also have limited information on the availability of commercial places which limits their ability to consider them as possible business locations. Therefore, we hypothesise that:

Hypothesis 3 (H3): Lack of access to alternative commercial places has an effect on the decision to locate MSEs in residential areas.

Apart from economic drives, personal lifestyle factors can influence the choice residence as location of a business (Walker & Brown, 2004, Vorley & Rodgers, 2012). Such factors offer convenience and flexibility for the entrepreneur and may include proximity to family and comfort of the entrepreneur with the location. Locating a business in a residential area enables the entrepreneur the flexibility to operate a business that accommodates family needs. Further, residential areas may offer convenience by being near to customers as well as reducing urban commuting for the entrepreneur. MSEs are more reliant on local communities and the use of a physical permanent nearby location may reinforce network ties which may be a source of resources for the business. Therefore, we hypothesise that:

Hypothesis 4 (H4): Personal lifestyle factors have an effect on the decision to locate MSEs in residential areas.

5.2 Methodology

5.2.1 Sample and data collection

Our sample was drawn from low income residential areas in Kitwe, Zambia. The respondents in our sample included entrepreneurs running and owning MSEs who were operating in areas not officially designated as business or trading areas by the local authorities. As such we targeted MSE-owners that operated within their residences such as small shops (i.e. commonly known as the previously-mentioned “Tuntemba”) and small workshops. Out of the 820 questionnaires that were distributed, 617 were returned fully completed and usable, giving a response rate of 75%.

5.2.2 Measures

The entrepreneur’s preference to locate the MSE in a residential area is the dependent variable for this research. We asked the entrepreneurs to indicate on a five-point Likert scale (ascending order), the extent to which they (not) agreed with statements that indicated their preference to locate a business in a low-income, high density residential area.

We used Principal Component Factor Analysis with Varimax rotation to assess the convergent validity and reliability of the measurement scale. The Kaiser-Meyer-Olkin (KMO), a measure of sampling adequacy, was 0.70 and Bartlett’s Test of Sphericity (BTS) was significant at $p < .001$. All communalities for the variables were above the critical value of .30. All the items on the scale loaded on one factor and accounted for 49.68% of the total variance. The scale also showed reliability with a Cronbach’s alpha (α) value of 0.66.

Regarding the independent variables: these were based on factors that can motivate entrepreneurs to locate their MSEs in high density, low income areas. The factors were grouped into cost considerations, entrepreneur’s attitude towards tax avoidance, perceived lack of access to commercial trading places and personal lifestyle factors. Cost considerations included availability of space, possibility of mixed land use within residence, size of business and security (covering *H1*). Tax avoidance involved measuring the respondents desire to avoid tax (covering *H2*). Access to alternative commercial trading places was measured based on the respondent’s awareness of planned trading areas and perceptions of the level of corruption on allocations of such spaces (covering *H3*). Measurement of personal lifestyle factors involved asking the respondents about their desire to locate the MSE close to the family and residential home, and the overall satisfaction and comfort of the entrepreneur in having the MSE in the residential area where s/he resides (covering *H4*). For all the factors, we asked the entrepreneurs to indicate on a five-point Likert scale (again, ascending order), the extent to which they (not) agreed with statements that measured the above factors. All scales showed convergent validity

and reliability.

5.3 Results

Table 1 presents the mean values, standard deviations and correlations among all the variables in the study. The correlations among the variables representing cost considerations of locating MSE in the residential area (*H1*), namely, availability of space, mixed land use, size of business and security of business, were positively correlated, ranging from $r(607) = 0.21$ to 0.07 , $p < 0.05$. The correlation between lack of awareness and institutional corruption in allocating planned trading spaces representing access to alternative commercial trading places (*H3*) was statistically significant $r(607) = 0.27$, $p < .001$). Similarly, the correlation between the proximity to family and satisfaction of the entrepreneur with location, representing personal lifestyle factors (*H4*) was statistically significant $r(607) = 0.11$, $p < 0.001$. Additionally, all but one of the correlations between independent variables and the dependent variable were statistically significant ranging from $r(607) = 0.13$ to 0.44 , $p < 0.001$. The variable regarding adequate space within the residence was not correlated with the dependent variable. All the inter-factor correlations were below the recommended level of 0.80 indicating that multicollinearity was not a problem (Tabachnick & Fidell, 1996). Overall, the correlation table results suggest that there was significant positive association between the independent and dependent variables.

Table 1. Descriptive statistics and correlations

| # | Variable (relation to hypothesis) | Mean | Standard deviation | Correlations | | | | | | | | | |
|---|---|------|--------------------|--------------|--------|--------|--------|--------|--------|--------|--------|---|--|
| | | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | |
| 1 | Adequate space within the residence (H1) | 3.22 | 0.79 | | | | | | | | | | |
| 2 | Mixed land use at residence (H1) | 3.73 | 0.98 | 0.07* | | | | | | | | | |
| 3 | Security of business (H1) | 3.81 | 0.72 | 0.21** | 0.31** | | | | | | | | |
| 4 | Size of informal activity (H1) | 3.87 | 0.66 | 0.14** | 0.01 | 0.15** | | | | | | | |
| 5 | Tax avoidance (H2) | 3.82 | 0.84 | 0.09* | 0.03 | -0.06 | 0.30** | | | | | | |
| 6 | Lack of awareness (H3) | 3.90 | 1.03 | 0.17** | 0.16** | 0.22** | 0.18** | 0.11** | | | | | |
| 7 | Institutional corruption at planning authority (H3) | 3.50 | 0.95 | 0.13** | 0.10** | 0.23** | 0.07 | 0.10* | 0.27** | | | | |
| 8 | Proximity to family and residence (H4) | 4.06 | 0.62 | 0.02 | 0.07 | 0.05 | 0.14** | 0.30** | 0.04 | 0.07 | | | |
| 9 | Satisfaction and comfort of the entrepreneur with location (H4) | 3.98 | 0.72 | 0.13** | 0.39** | 0.34** | 0.23** | 0.14** | 0.37** | 0.16** | 0.11** | | |

** Correlation is significant at the 0.05 level (two-tailed); ** Correlation is significant at the .001 level (two-tailed).*

We used a linear regression model to identify factors which influenced the decision to locate the MSE in a low income residential area. The results are shown in Table 2.

Table 2. Linear regression model of determinants of locating MSEs in residential areas

| Variables (relation to hypothesis) | Beta | Standard error | Significance value |
|---|-------|----------------|--------------------|
| Adequate space within the residence (H1) | -0.02 | 0.03 | 0.38 |
| Mixed land use at residence (H1) | 0.04 | 0.02 | 0.10 |
| Security of business (H1) | 0.02 | 0.03 | 0.61 |
| Size of informal activity (H1) | 0.28 | 0.03 | 0.00 |
| Tax avoidance (H2) | 0.19 | 0.03 | 0.00 |
| Lack of awareness (H3) | 0.03 | 0.02 | 0.21 |
| Institutional corruption at planning authority (H3) | 0.05 | 0.02 | 0.04 |
| Proximity to family and residence (H4) | 0.01 | 0.03 | 0.79 |
| Satisfaction and comfort of the entrepreneur with location (H4) | 0.10 | 0.03 | 0.00 |
| <i>F</i> | | | 30.55** |
| <i>Model R²</i> | | | 0.31 |
| <i>Adjusted R²</i> | | | 0.30 |

**** Effect is significant at the .01 level (two-tailed).**

The regression model was statistically significant with R^2 value of 0.31 ($F = 30.56$; $p < 0.001$). The factors that significantly influenced the location of MSEs in residential areas were the entrepreneur's attitude towards tax avoidance ($\beta = 0.19$; $p < 0.05$), perceived levels of institutional corruption ($\beta = 0.05$; $p < 0.05$), size of the MSE activities ($\beta = 0.28$; $p < 0.001$), and the overall satisfaction and comfort of the entrepreneur in having the MSE in the residential area where he resides ($\beta = 0.10$; $p < 0.05$). The influence of failure to apply for designated business land due to lack of awareness, the existence of adequate space within the residence that could be used as a trading area, mixed land use of residence, security of the business, size of the MSE activities, desire to locate the MSE close to the family and residential home, were not statistically significant. In sum, all results from Table 2 indicate a partial acceptance of *H1*, *H3* and *H4*; *H2*, however, is fully accepted.

To check whether our results hold regardless of the assumptions made in the model, we conducted robustness checks using the procedure outlined by Young and Holsteen (2015). This procedure demonstrates model robustness across sets of possible variable definitions, controls, standard errors and functional forms, using all possible combinations of the specified model ingredients and identifies the variables in the model that are empirically most influential. Thus, Young and Holsteen (2015) procedure tests how estimated results are sensitive to different

configurations of the tested model (Nikolaev *et. al.* 2018). The results of this analysis (see appendix 1) confirms that within the scope of our configurations the regression results presented in Table 2 were robust.

5.4 Concluding discussion

Urban entrepreneurship in Zambia began to evolve after the British colonial rule in 1964. Since Zambia's independence, its economy has gone through different development stages to foster diversification, privatisation, and creating an open, liberal market economy. Although some institutional changes have been more effective than others, contemporary Zambia has a number of clearly distinctive urban areas each characterised by different entrepreneurial activities. Yet, the common denominator of entrepreneurial activities in urban areas in Zambia is the making and retailing of products which are typical for factor-driven economies. The entrepreneurs selling these products have learned how to use creative responses to changes over time in the institutional environment.

The different entrepreneurial activities in the main urban areas can be described as follows: Livingstone is widely known as a tourist destination, thus, attracting much entrepreneurial activities related to safaris, excursion and hospitality; Lusaka is the heart of the country offering the main economic and governmental services—and entrepreneurial activities related to this. Kitwe and Ndola are known for the mining industry: entrepreneurial activities are usually the types that relate closely to the industry (e.g. transportation, recycling of raw materials and used goods), as well as other activities such as fishing and poultry.

Besides the socio-political factors from the institutional environment, entrepreneurs also have personal factors to make decisions of locating their MSEs in a particular urban area. In the showcase of Kitwe, the results indicate that business location decisions were primarily driven factors that include the entrepreneur's attitude towards tax, perceived levels of institutional corruption, size of the informal business activities, and the overall satisfaction and comfort of the entrepreneur in having his business in the residential area where he or she resides.

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Appendix

| VARIABLES | (β) | R Ratio | Sign Stability | Sign Rate | Positive | Positive & Significant | Negative | Negative & Significant | N | Overall |
|---|-------------|---------|----------------|-----------|----------|------------------------|----------|------------------------|-----|------------|
| Adequate space within the residence (H1) | -0.023 | 0.067 | 55 | 0 | 45 | 0 | 55 | 0 | 617 | Not Robust |
| Mixed land use at residence (H1) | 0.038* | 1.526 | 100 | 49 | 100 | 49 | 0 | 0 | 617 | Not Robust |
| Security of business (H1) | 0.016 | 0.890 | 89 | 26 | 89 | 26 | 11 | 0 | 617 | Not Robust |
| Size of informal activity (H1) | 0.284*** | 6.649 | 100 | 100 | 100 | 100 | 0 | 0 | 617 | Robust |
| Tax avoidance (H2) | 0.189*** | 5.441 | 100 | 100 | 100 | 100 | 0 | 0 | 617 | Robust |
| Lack of awareness (H3) | 0.027 | 1.884 | 100 | 73 | 100 | 73 | 0 | 0 | 617 | Not Robust |
| Institutional corruption at planning authority (H3) | 0.046** | 2.310 | 100 | 94 | 100 | 94 | 0 | 0 | 617 | Robust |
| Proximity to family and residence (H4) | 0.009 | 1.096 | 100 | 50 | 100 | 50 | 0 | 0 | 617 | Not Robust |
| Satisfaction and comfort of the entrepreneur with location (H4) | 0.097*** | 3.208 | 100 | 100 | 100 | 100 | 0 | 0 | 617 | Robust |

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

These results are based on the methodology Young and Holsteen (2015) methodology. The results are a summary of modeling distribution of all the variables in our regression model. The analysis is based on 265 unique combinations of the nine core variables.

(β) = average β coefficient across all 256 estimations, R Ratio = robustness ratio. If higher than 2, it suggests robustness (Young and Holsteen, 2015); Positive is the percent of models in which the variable enters with a positive sign; Positive and significant is the percent of models in which the variable enters with a positive & significant sign; Negative is the percent of models in which the variable enters with a negative sign; Negative and significant is the percent of models in which the variable enters with a negative & significant sign; Sign stability is the sign stability indicating the percentage of models that have the same sign; Sig rate is the significance rate indicating the percentage of models that report statistically

significant coefficient. A significance rate of 95 percent or higher indicates strong robustness while a significance rate of 50 percent sets a lower bound for weak robustness; N = number of observation.