

THE ENDOGAMY TRADITION AND THE BUSINESS PERFORMANCE OF INFORMAL OWNER-MANAGER VENTURES IN SUB-SAHARAN AFRICA

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INTRODUCTION

Firms in developing countries differ from those in developed countries, notably, as emphasised by De Soto (1989, 2000), concerning the ubiquity of the informal sector. Even so, economic and business research on the informal sector remains limited and even less attention has been paid to what determines business outcomes *within* the informal sector. Informal firms largely operate outside the formal institutional structures and often in countries without strong formal institutions underpinning factor markets (Bruton et al., 2012; La Porta & Shleifer, 2014), but nonetheless *within* the boundaries of informal institutions (Webb, Ireland & Ketchen, 2014). Hence, business outcomes of informal firms are mostly shaped by informal rather than formal institutions.

By informal institutions, we mean the norms, values, and beliefs that determine social acceptability (North, 1990; Berrone, Duran, Gómez-Mejía, Heugens, Kostova & van Essen, 2022). Even so, conceptualisation of informal institutions remains somewhat less developed than of formal institutions and we focus on three research gaps. First, while the literature has explored several aspects of informal institutions such as social capital (Putnam, 2000; Busch & Barkema, 2022), trust (Peng, 2003; Mickiewicz and Rebmann, 2020) and social organisations (Grief & Tabellini, 2017), there has been little research on the central phenomena of the family systems and kinship ties (Khavul, Bruton & Wood, 2009; Khayesi & George, 2011). Second, the evolution of informal institutions is not well documented, although the literature suggests that informal institutions may follow a dynamic process (Meyer & Peng, 2005; Helme & Levitsky, 2006). Finally, the appropriate level of analysis may differ between informal and formal institutions; while formal institutions typically align with country borders, regions and individuals in the same country can have very different cultural backgrounds (Schulz et al., 2019).

We address the first two research gaps using a cultural anthropology perspective. We posit that informal institutions are deeply rooted in the *family system*, especially the practice of marriage (Todd, 2019; Henrich, 2020). Taboos on marriage shape patterns of relatedness and alliance formation, which underlie the primary structure of societies and configures interpersonal interactions (Bau & Fernandez, 2020). We follow Schulz et al. (2019) and Henrich (2020) in treating taboos on cousin marriage as a key distinction of family systems. In particular, we draw on the distinction between endogamy and exogamy. Endogamy – the practice of marriage within a specific social group (the *ingroup*) which includes acceptance (or even support for) marriages

between close cousins – reinforces kinship ties. In contrast, exogamy – prohibiting cousin marriage but allowing and encouraging marriage outside the ingroup – weakens kinship ties (Rodriguez-Garcia, 2006).

We address the second research gap by conceptualising the persistence and evolution of informal institutions seen as factors affecting informal businesses' performance. The cultural anthropology literature stresses that the effect of the endogamy tradition can be persistent (Todd, 2019) because social beliefs based on family systems can be transmitted inter-generationally (Bau & Fernandez, 2021). At the same time, the endogamy tradition can evolve when societies go through momentous changes such as the large-scale European colonisation in Africa (Nunn, 2010), leading to changes in informal institutions. For example, in Africa, the impact of the endogamy tradition may have been modified by antipathetical values and practices imposed by colonisers.

Africa also represents an ideal setting to tackle the third research gap because, in much of the continent, informal institutions such as family systems vary at the ethnic-group levels and can cut across country frontiers (Alexander & Honig, 2016). Thus, ethnic groups within the same country, even geographically proximate ones, can have different informal institutions, while the same ethnic group in different countries may still preserve common values. This feature is not unique to sub-Saharan Africa (SSA), but is prominent there, largely as a consequence of the colonial partition of Africa (Michalopoulos & Papaioannou, 2014). Therefore, making cross-ethnicity comparisons in Africa while using country fixed effects to control for confounding effects from formal institutions allows for the separate identification of formal (national) and informal institutions. Our focus on SSA as the empirical setting also answers the calls for a greater consideration of Africa in management research (e.g., George, Corbishley, Khayesi, Haas & Tihanyi, 2016).

THEORY: MOTIVATING THE HYPOTHESES

Seen from the cultural anthropology perspective (Schulz et al., 2019; Henrich, 2020), informal institutions originate in family systems that define the structures of kinship and mutual obligations and privileges that result from the related social identities. Building from the fundamental social link between a mother and her child, family systems sustain broad and complex patterns of mutual support and cooperation. However, these patterns may be more or less effective at providing support for market-based systems of business activities. Endogamy practices create dense networks of family connections and strong kinship ties (Henrich, 2020), reinforcing obligations towards ingroups and permitting the least individual freedom in that the marriage choices are subjected to strict customary rules (Todd, 1985). This socially enforced reliance on interdependence within the clan restricts the possibilities for arms-length trading between both firms and individuals on open markets. Put another way, while endogamy implies stronger bonding trust, which may be beneficial, it simultaneously makes it harder to establish bridging trust. Moreover, endogamous societies also give rise to in-group nepotism and favouritism in hiring and operating. All this may lead to suboptimal organisational structures and performance in firms (Akbari, Bahrami-Rad & Kimbrough, 2019).

The cultural anthropology literature also proposes that the effects of the endogamy tradition will be persistent (Todd, 1985; Henrich, 2020). Even if cousin marriage is no longer practised contemporarily in a given area, the outlook and cultural norms associated with it, attributing primacy in social and business relations to the ingroup, are likely to endure. Path-

dependence in family systems is argued to result from the intergenerational transmission of values and social beliefs (Bau & Fernandez, 2021), largely within ethnic groups, and more generally local traditions. As succinctly phrased by Todd (2019), places have memories.

This analysis has particular resonance for informal firms, because they largely operate outside the formal institutional structures, and therefore are less beholden to external market and government forces (Batjargal, Hitt, Tsui, Arregle, Webb & Miller, 2013; de Castro, Khavul, Bruton, 2014). In addition, they operate in countries without strong formal institutions underpinning factor markets, including in Africa (de Soto, 1989; Bruton et al., 2012; La Porta & Shleifer, 2014). Importantly however, informal firms operate within the boundaries of informal institutions (Webb, Ireland & Ketchen, 2014). We posit the following hypothesis:

Hypothesis 1: The tradition of endogamy in a given ethnic area will be associated with lower performance of informal businesses.

Although the literature argues that informal institutions such as the endogamy tradition can be persistent over long periods, they are not viewed as unchanging; they may be affected by momentous changes and institutional shocks (Harrell 1997). In particular, the colonial experience in Africa can be seen as a large cultural intervention (Acemoglu & Robinson, 2012; Decker et al., 2019) which may have reduced the cohesiveness of ethnic networks (Collier & Gunning, 1999). Colonisers' cultures left imprints on their colonies via major state formal interventions such as the imposition of new laws and administrative practice (La Porta et al., 1998) as well as non-state cultural influences that include missionary activities (Nunn, 2010). We propose that impact of the endogamy tradition was attenuated by the colonial experience, but not entirely erased.

A cultural trait that is particularly alien to the endogamy tradition is individualism, which prioritizes individual objectives over the collective goals of the ingroup and emphasises personal achievement and independent decision-making (Heine, 2020). Britain is a positive outlier in terms of individualistic values though all European colonisers apart from Portugal score above the mean (Hofstede et al., 2010; Taras et al., 2012). Moreover, the deeper counterpart of British individualism is the family system based on the nuclear family tradition, which cultural anthropologists locate at the opposite extreme from endogamy on the spectrum of family systems (Todd, 2019). The legal systems and administrative practices of the British Empire therefore reflect a culture of individualism which may have affected the impact of the endogamy tradition in its colonies. The greater emphasis on the individual may also enable deeper contact with the outgroup by blurring the ingroup boundary, facilitating a wider scope for market-based transactions. Therefore, we propose:

Hypothesis 2a: The effect of the endogamy tradition in a given ethnic area on informal businesses' performance is attenuated in those former colonies that were exposed to individualistic cultures, in British colonies in particular.

We posit a related argument that focuses on a non-state channel of colonial influence; the colonisers' religion. Todd (2019: 10) argues that religion and family systems co-evolve, while Henrich (2020) suggests that Western Christianity took an extreme position in its prohibitions and regulations against endogamy in general, and cousin marriage in particular. He argues that the influence of the Western Church resulted in a gradual breakup of the traditional kinship

structures in Western and Central Europe via the virtual eradication of endogamy. Later, large-scale missionary activities were closely associated with European expansion, including in Africa (Nunn, 2010). Once again, exogamy was a key element of the doctrine and the practices that Christian missionaries sought to implement in Africa, even when, as occurred in some places, this ran directly counter to the local family system. Thus, the geographic density of Christian missions in ethnic areas of Africa during colonisation is likely to be positively associated with a weakening of the endogamy tradition. As a result, we propose the following:

Hypothesis 2b: The effect of the endogamy tradition in a given ethnic area on informal businesses' performance is attenuated where Christian missions were denser during the colonial period.

DATA AND METHODS

Our dataset builds on the World Bank Informal Sector Business Surveys (ISBS), which comprise surveys of informal entrepreneurs implemented between 2011 and 2020 in eight countries in SSA: Democratic Republic of the Congo (DRC), Ghana, Kenya, Mozambique, Rwanda, Somalia, Zambia and Zimbabwe. Consistent with the International Labour Office (ILO), the ISBS defines informal enterprises as firms not registered with the local ministry of commerce or the respective municipality. The ISBS are the counterparts of the well-recognised World Bank Enterprise Surveys (WBES) but focusing exclusively on informal firms in urban areas. Sampling methods and questionnaires are consistent across countries and years and various methods were taken to ensure the representativeness of each country samples (Assenova & Sorenson, 2017).

Explanatory variables

At the individual level, we utilise data on gender, age, education, business experience, length of time spent in a given city (to control for migration status), sole ownership, sectoral affiliation, as control variables, all being associated with business performance based on existing research (Saka-Helmhout, Chappin & Vermeulen, 2020; Alesina et al., 2015; Decker, Estrin & Mickiewicz, 2020; Pierce & Snyder, 2020).

Our work exploits the fact that family systems vary across the territories of ethnic groups while formal institutions are usually defined at the national level. Furthermore, for hypothesis 1 on persistence of the effect of family traditions, we require historical data. Hence, our measure of endogamy tradition uses a widely recognised ethnicity-level database; the Ethnographic Atlas (Murdock, 1967), which provides information on social, cultural, and economic traits of 1,265 ethnic groups worldwide mostly prior to industrialisation and/or European contact (Giuliano & Nunn, 2018). Ethnographic information is coded for the earliest period for which satisfactory ethnographic data has been available or reconstructed (Giuliano & Nunn, 2013). Our measure of the endogamy tradition is cousin marriage practice, where parallel-cousin marriage implies lineage endogamy (Schulz, 2017). Following the mainstream literature (Rijma and Carmichael, 2016; Schulz, 2021), we use *variable 25* (cousin marriage preferred; rather than just permitted) to construct the endogamy tradition variable: dummy = 1 (0) if cousin marriage is preferred (otherwise). We link the information from the Ethnographic Atlas with the ISBS utilising the Ethnolinguistic Map (Murdock, 1959) which documents the territories of the historical

homelands of each ethnic group. We relied upon the GPS coordinates data available from the ISBS to link a business location with an ethnic area. As different ethnic groups are sampled in different periods of time in the Ethnographic Atlas, we also include the year of the information to control for measurement errors. Our sample is balanced in terms of the endogamy practice: 51% (49%) owner-managers are exposed to the tradition of endogamy (exogamy).

To test H2a, we use a dummy on whether an informal firm is located in a previous British colony. For H2b, based on a map by William Roome in 1924 which documents the location of Christian mission stations in colonial Africa, we calculate the number of mission stations per 1,000 square kilometres in each ethnic homeland in our sample.

Dependent variables: measures of performance

Following Assenova & Sorenson (2017), we use revenue and employment as two key measures of informal enterprise performance, and labour productivity (APL) as a third measure. Revenue is calculated as monthly sales revenue and the size of employment includes both paid and unpaid workers. APL is defined as the monthly sales revenue divided by the size of employment. We divide each performance measure by the respective sector-country average.

Model specification

We utilise the following model to test H1. For each informal business i operating in industrial sector p in country j in ethnic homeland s and surveyed in year t :

$$y_{ijspt} = \alpha + \beta * ENDO_s + \delta_1 * X1_i + \dots + \delta_n * Xn_i + \eta_1 * Z1_s + \dots + \eta_m * Zm_s + u_p + v_{jt} + \epsilon_{ijspt} \quad (1)$$

$ENDO_s$ represents endogamy tradition in ethnic group s . X corresponds to n individual-level control variables, Z relates to m ethnic area-level control variables, u_p are sectoral fixed effects (manufacturing, service, trade and street vendors), and v_{jt} are country-year fixed effects to control for formal institutions and the selection of British colonies. For Hypotheses 2a and 2b, the above model is augmented with the interactions between the endogamy indicator variable and the relevant variables. All models are estimated by OLS with robust standard errors.

RESULTS

We obtain clear support for H1 that the endogamy tradition has a negative influence on informal sector firm performance. The endogamy tradition indicator variable comes with a negative and significant sign in the core model related to all three measures of performance: revenue ($b=-0.111$, $p<0.01$), employment ($b=-0.132$, $p<0.01$) and APL ($b=-0.103$, $p<0.01$). The magnitude of the effects is not small. Other things being equal, coming from an ethnic group territory with the endogamy tradition (compared with a tradition of exogamy) is associated with a decrease of revenue of 11.1% of the country-sector mean effect. The effect of the endogamy tradition on the other performance measures is similar in magnitude: 13.2% for employment and 10.3% for APL.

We also find strong support for H2a. The endogamy tradition decreases revenue by 21.8% of the country-sector mean effect ($p<0.01$), but this adverse effect disappears in former

British colonies (-21.8% plus 22.5% is approximately zero). Similarly, the endogamy tradition reduces APL by 18.7% of the country-sector average ($p < 0.01$) but the imprint of the British individualistic culture nearly eradicates this, by 17.6% of the country-sector average ($p < 0.01$). However, for employment, the interaction itself is insignificant ($b = 0.004$, $p > 0.1$). One possible explanation is that when the endogamy tradition was attenuated by British colonial rule, business performance may be enhanced with higher demand for jobs, but the incentive to create job opportunities for kin members in ethnic groups with the endogamy tradition also diminished. The overall effect on employment was therefore ambiguous.

We do not find consistent support for H2b. When using revenue as the dependent variable, we find the interaction term between the density of mission stations and the endogamy tradition to be insignificant ($p > 0.1$). Similarly, the coefficient on the interaction term is insignificant ($p > 0.1$) when we use employment as the performance measure. We find some significant results for APL. The magnitude of the effect, however, is smaller than that of the identity of the coloniser in H2a, and the significance level is lower.

DISCUSSION

We have considered how the endogamy tradition affects the performance of firms in the informal sector in SSA and how these effects may be mitigated by aspects of the colonial legacy. We find clear and unambiguous support that the performance of informal sector firms was negatively influenced by the tradition of endogamy. Moreover, the negative impact of the endogamy tradition on informal firm performance was attenuated when the colonial power brought with it a strongly individualistic culture. In comparison, religious missions had much weaker effects. Thus, we find evidence for the persistent effects of the informal institution of family system on firm performance over long time periods, as well as for its attenuation by cultural shocks such as colonisation.

Platteau's work (2019) on religious conversion in colonial Africa helps to explain ambiguous findings for H2b. Christianity faced strong competition from Islam and the arrival of Christian missionaries incentivised Muslims to expand their faith, while mass conversions were often based on loose conditions; "Christians" might declare themselves to be converted without understanding what this actually meant. Moreover, individuals who seriously chose to convert often did so to emancipate from traditional kinship groups. So missionary activities may not have attenuated the endogamy tradition because people who endeavoured to protect traditional family systems were less likely to be converted.

This paper has important implications for managerial practice. To enhance business performance, it is essential for business owners and managers to consider the deep roots of the informal institutions of the communities or groups with which they interact, such as the way families and societies are organised. Our managerial implications reach beyond the informal sector. Firms operating in SSA may benefit from a deeper understanding of the continent's considerable ethnic and cultural diversity. In addition, firms should be aware that their informal subcontractors, exposed to different informal institutions, might have different business purposes: informal firms in ethnic groups with the exogamy tradition may be driven by market outcomes such as revenue but those with the endogamy tradition might prioritise job creation.

REFERENCES AVAILABLE FROM THE AUTHORS