food-vendors.org Briefing Papers

Briefing Paper #5:

The constraints to doing business

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This Briefing Paper aims to help those designing interventions to improve the livelihoods and offerings of food vendors in Low- and Lower-Middle Income Countries

In a less flawed world, the 100m food vendors working in Low- and Lower-Middle Income Countries—L(M)ICs—would sell a variety of affordable and nutritious foods to all of those who need to buy food, and, in the process, make a comfortable living for themselves and their dependents. But this is not the outcome of our current food systems; in this world, the livelihoods of food vendors in L(M)ICSs are precarious and their products are often neither nutritious nor safe. Changing this by designing effective support systems for food vendors requires understanding the real-world constraints that they face.

Theoretical framework

The vast majority of the constraints that affect food vendors in L(M)ICs are common to other micro-enterprises in the same contexts; these have been documented extensively. A few, however, are specific to the value chains and market structures that they work within.

This short paper takes a multi-level perspective. At the heart of the food vending business is the *food entrepreneur* (the agent). They do business as a *firm*, which is more than just the entrepreneur even if there are no other employees; it has a history and an implicit or explicit business strategy. The firm operates within a local *market context*, specific to place, value chain, and population segment. Finally, that local market context is nested within a broader *business environment*. Constraints will cascade downwards, with the broader business environment, for example, heavily shaping what is possible for the local market context. Similarly, the business strategy of the firm determines which skill sets are useful to the entrepreneur. Meanwhile, agency operates upwards, so that, for example, firm-level innovation can offset to some degree a distorted market. The various constraints interact, making it more and more difficult to identify pathways to growth as constraints at different levels accumulate.

No existing theory of entrepreneurship integrates all of these levels and their diverse disciplinary perspectives. This paper (selectively) unpacks each level as presented in the Table (with leading systematic review papers/meta-analyses identified for each dimension, focusing on associations with business performance). We assume here that the constraints to entrepreneurial success identified in the cited global reviews will likely also apply in the specific case of food vendors in L(M)ICs. Selected confirmatory case studies of concrete groups of food vendors are presented to illustrate these general findings.

TABLE: *theoretical framework for the analysis of constraints to doing business*

LEVEL:	KEY REVIEW ARTICLES/ multi-country analyses:
The entrepreneur	
• Personality traits	(1)
• Human capital	(2)
• Social networks and embeddedness	*not found*
The firm	
• "The liability of smallness"	(3)
○ Resource limitations	
○ Organisational structure	
The market	
• Porter's "Five Forces"	(4)
○ Threat of new entrants	
○ Threat of new substitutes	
○ Rivalry among existing competitors	
○ The bargaining power of buyers	
○ The bargaining power of suppliers	
The institutional environment	
• Government regulations	(5)
• Trust	(6)

Relevant findings

Entrepreneurs

Meta-analyses (1) support the idea that entrepreneurs can be their own worst enemy, with four of the 'Big Five' personality traits generally associated with lower business success: low Conscientiousness (impulsive, easily side-tracked); low Openness to Experience (conventional, humdrum); Introversion (reserved, quiet) and Neuroticism (sensitive, prone to worry). Effect sizes were, however, mostly small.

Knowledge and skills are found to be related to business growth and profitability (2). Human capital investments (education and experience) are less predictive of success, presumably because they do not automatically lead to greater skills; the review finds that knowledge and skills are most strongly related to business success when they are specific (i.e., task-related).

While it was not possible identify a systematic review of the topic, theoretical sociologists and economists have highlighted the role of social capital and networks for business success of entrepreneurs in low-income settings. Portes (7) has particularly highlighted the importance of: *value introjection* (a sense of duty in one's profession), *reciprocity transactions* (doing a good deed in the expectation of being on the receiving end of similar behaviours in the future), *bounded solidarity* (among a group facing common adversaries), and *enforceable trust* (to build community 'good standing').

Case study: street food vendors in the Davao region of the Philippines (8)

Although based on a very small sample, this interesting study finds that vendors adopt a "keep going" mindset, but with different motivational anchors—while some lean into faith, others draw strength from positive customer interactions. Vendors emphasised maintaining harmonious relationships to protect reputation and customer loyalty, but while some prioritised trust-building and conflict avoidance, others were more assertive. All the vendors explicitly tried to manage the physical and emotional pressures of their work. The study illustrates how different vendors may share the same constraints but play on their individual personal strengths to create resilience.

Firms

De Camargo Guerrazzi and colleagues (3) are able to confirm a strong and statistically significant effect of firm size on performance, bringing together in a single analytic framework 62 studies covering 20 years of research. They note that small firms usually have a limited bundle of resources and incur higher financing costs due to a lack of credibility. Looking at potential mediators of this effect, they suggest that small firms might have less formal structure and process and also consider "legitimacy" as proxied by membership of associations and the like. Their findings suggest that "the smaller the firm, the more necessary legitimacy and formalisation [are] to improve performance, strengthen the firm and increase its odds of survival".

Case study: street vendors in Dhaka, Bangladesh (9)

Although this study was not limited to vendors of food, it is one of very few relevant case studies from L(M)ICs. The amount of initial capital invested in the business is one of the strongest predictors of monthly sales volume, and having a bank account, which appears to be a proxy for a generally more formalised business, is also somewhat predictive. A very strong predictor of sales volume is whether the vendor occupies a designated trading spot, which can be seen as a strategic option in the business model of the firm.

The competitive market

Food vendors in L(M)ICs operate in a highly competitive market. As shown in (10) and (11), they are numerous, crowded together into the most favourable locations, and have similar product offerings. Michael Porter's "Five Forces" (12) framework offers a well-established analytic tool for understanding the constraints facing such businesses.

Ndzabukelwako and colleagues (4) review recent studies applying the Five Forces framework to SMEs and specifically call out findings relevant to retail and food industries. Because food vendors offer similar products and their businesses are closely matched in size and capabilities, they are likely to face stiff *rivalry from existing competitors*. Food vendors also have to contend with significant *bargaining power of suppliers*, especially if they are purchasing from markets themselves or from the few distributors that are prepared to visit scattered retail outlets. They have to worry about *competition from new entrants*, which explains why securing a guaranteed location is so critical to street food vendors and market traders. Supermarkets and digital traders obviously pose a risk of channel *substitution*, although in many L(M)ICs the growth of these channels continues to be slow, especially in low-income neighbourhoods. And if vendors cannot offer competitive price and quality, customers can easily switch to other vendors, creating significant *bargaining power of buyers*.

Case study: fruit and vegetable trading in Natalspruit market, South Africa (13)

This is an exceptionally meticulous application of Porter's Five Forces framework to the case of fruit and vegetable traders in the Natalspruit trading area. Three of the competitive forces were found to be very impactful for the traders interviewed. Firstly, because the work does not require any special skills and the initial outlay is low, pressure from new entrants is significant. Secondly, the Natalspruit market does not see heavy footfall and those customers that there are are very price-sensitive, so that the customers have a lot of bargaining power over the (numerous) traders. Finally, because the traders all source their produce from the same place and must sell their stock quickly before it goes off, there is intense rivalry.

Institutions

The national regulatory environment can impact the performance of small businesses in two different ways: firstly, it may encourage or discourage them from formalising and this lack of formality in turn may impact their costs and revenue. Secondly, for those businesses that do choose to formalise, regulations may impact businesses' ability to launch, grow their footprint, and retain their profits. In Low- and Lower-Middle Income Countries, the former pathway is far more significant as 89.9% and 83.9% respectively of all employment is in informal businesses (14). Likely these figures are even higher for food vendors specifically.

Local regulation is likely to be more directly impactful for food vendors. This may cover: zoning and allocation of specific sales points; licensing and permitting; food safety enforcement, and local taxation and fees.

Case study: the enabling environment for informal food vendors in Nigeria (15)

This study analyses the situation of sellers of fresh, prepared and packaged foods in two secondary cities in southern Nigeria. The authors characterise the nature of the enabling environment in these locations as one of "benign neglect", and contrast the official narrative of oversight, support, and licensing with the lived experience of the vendors, who rarely come into contact with officialdom except for local government revenue collectors. In one of the two cities, but not the other, there is a widespread perception that fees and taxes are problematically high. The authors note that their findings contrast with previous studies of Lagos, where official harassment of vendors has been frequently observed.

Along with regulations, culture provides a second set of institutions (norms) that can greatly shape the enabling environment for entrepreneurship. Kara and Dheer argue (6) that major cultural drivers—how hierarchical a society is, how individualistic it is, and how comfortable it is with uncertainty—are largely mediated by trust. Three layers of trust are implied: generalised social trust (an expectation that "most people" can be relied on), relational trust in specific partners, and trust in institutions.

Conclusions

- Food vendors in L(M)ICs face serious constraints to launching and growing their businesses and to generating and retaining profits
- These constraints are diversely related to characteristics of the entrepreneur, of the firm, of the specific local market they operate in, and of the broader enabling environment
- Multiple constraints accumulate across levels, making it more and more difficult to run a successful business. Interventions aimed to improve business performance would be ill-advised to neglect any of the levels
- While most of the relevant review literature relates to entrepreneurship in general, or to Small and Medium Enterprises as a class, there are many case studies of food vendors in L(M)ICs which give strong reason to believe that the findings are generalisable
- Several different disciplines have valuable perspectives to offer on the constraints experienced by small entrepreneurs in general and food vendors in L(M)ICs in particular.

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