

Do Small Firms in Developing Countries Ever Transform? Evidence from Small Manufacturers in Kenya

Abstract:

, Data from small Kenyan manufacturers unequivocally confirms that these firms not only transform, but often enjoy deep transformation. A strong, positive firm-age effect on transformation suggests an underlying life cycle structure, so that the short life expectancies often associated with these firms deny them the opportunity to transform. Transformation is also directly related to start-up capital, suggesting that even in this small firm category, firms better endowed at start-up have a better chance of transforming during their lifetime. The results pick a negative association between start-up size and transformation, so that firms that start relatively large within this small size threshold have poor transformation prospects. Our overriding conclusion is that small manufacturing firms common in the developing world are capable of experiencing transformation, including deep transformation. They are, therefore, not dead ends and should continue to attract policy attention