Strategy in sub-saharan Africa: defining a research agenda for Mauritius

Conference or Workshop Item

Discussion Paper:

Strategy in Sub-saharan Africa: Defining a Research Agenda for Mauritius

Dev k. Boojihawon, Open University, Business school, Walton Hall, Milton Keynes, UK (email: d.k.boojihawon@open.ac.uk)

Abstract

Do African firms differ in their approach to strategy making? Are they any different to firms from other emerging or developed economies? Despite the proliferations of strategy and international business textbooks over the last decade, there has been very little on Africa.

The answer probably lies in the predominant perception of Africa as a difficult place to do business. The region is often seen as a corporate graveyard of small, impossibly difficult markets, where war, famine, AIDS and disaster are part of a series of other intractable problems. Such image has not only widened existing divide between Africa and the rest of the world, but also tarnished much of the scope and potential of African businesses globally; and also hindered much progress in the study and understanding of strategic management practices of African business organisations.

This paper proposes an agenda for strategy research in that context. Extending on the generic theoretical framework for ‘strategy in emerging economies’ proposed by Hoskisson et al (2000) and Wright et al. (2005), this agenda raises a number of questions and challenges relevant to theory and practice of strategy in the context of Mauritius. It is believed that there is growing scope for exploratory and empirical research that addresses the needs of businesses relevant to that part of the world. Indeed, the rapid pace of development of some parts of Africa is providing new testing and refining grounds of extant strategy theories, even with possibilities to develop new ones.

Introduction

Africa is generally bad news for business. This is not helped by its numerous intractable problems, often graphically enhanced by popular media, of: runaway population growth, diminishing capacity to feed its people, deteriorating physical environment, crushing burdens of external debts. But there is an emerging view, that Africa is not all bad news (Economist 2006, Jackson 2002, 2004, Versi & Kafuor, 2004). Its business climate is changing; some African regions are doing much better than others. This change has come primarily because these regions comprise of countries with a rapid pace of development and government policies that favour economic liberalization. This research explores the scope of theory and practice of strategy amongst African businesses by studying one of its key economic success stories: Mauritius.

Much of this positive view of Africa is fostered, or indeed, driven by the upsurge of emerging economies in the world stage. Emerging economies have now established themselves as prominent economic forces in the world economy. Since 2005, in particular, emerging economies have not only received significant amounts of foreign direct investment (FDI) inflows but also strengthened their global positions as emerging sources of FDI. World's FDI outflows from emerging economies (including Africa) grew from $65 billion in 1980 to over $ 960 billion in 2005 (UNCTAD, 2006). Of the 64 emerging economies identified by Hoskisson et al. (2000), only Mauritius and South Africa are identified as the rapidly emerging countries of Africa.

But there is a blatant lack of strategy literature and appropriate management development resources for managers operating in emerging economies, particularly in Africa (Jackson, 2004; Wright et al. 2005). While research on strategy in emerging economies growing (Cavusgil et al. (2002), Estrin and Meyer (2004), Hooke (2001), Mathews (2002), and Peng (2000), coverage of countries and regions of Africa has lacked behind. Hoskisson et al. (2000) notes the general absence of research on emerging economies in South America, Africa, and the Middle East. Although there is a growing body of research on strategies in South America (Aulakh et al., 2000), this is not matched by research on Africa and the Middle East. Given the importance attached to institutional issues, additional research on these regions is needed. But not just any adhoc research on strategy. Wright et al. (2005) argues that what is needed is strategy research that considers the extent to which theories and methodologies used to study strategy in mature, developed economies are suited to the unique cultural and institutional context as well as firm characteristics of emerging economies (see also , Jackson, 2002).

In the pages that follow, the paper presents a rationale for grounded strategy research within Africa. It then considers the conceptual framework within this should be done. In so doing, it presents some research questions relevant to Mauritius. Finally, it discusses the prospects and implications for future research on strategies in Sub-saharan Africa.

Why Africa? Why Mauritius? Why Bother?

Africa is not all bad news for business. Certainly, doing business in Africa is hard work, nonetheless businesses are thriving. More business leaders are seeing the continent as a land of opportunities (Economist 2006). In Africa, FDI inflows increased drastically shot up from $17 billion in 2004 to an unprecedented $31 billion in 2005, although a miserly share of just over 3 % in terms of global FDI. Nonetheless, South Africa, Mauritius, Namibia, Tunisia and Botswana rank among. Many of the largest global commercial players are to be found in Africa: some of the biggest brands in banking (e.g. Citibank, Barclays), oil (e.g. Shell, BP) manufacturing (e.g. Toyota), health products (e.g. Johnson and Johnson, Colgate-Palmolive) to name only a few (Jackson, 2004). In addition, quasi-governmental and so-called 'third sector' organisations are part of a huge development business: agencies of the United Nations and large international NGOs such as Red Cross, Oxfam and Medecins Sans Frontiers. At local levels, companies are being started and successfully built in many African countries, especially in banking, retailing and mobile telephones the best 50 countries in the world. They all have invested heavily in export-oriented policies and strategies and have shown tremendous returns. Generally, Africa's economy is growing steadily (see Figure 1, *Source: The Economist, 2006*) and could expand by 5.8% this year. In part this is largely promoted by commodities boom and debt forgiveness. But more peace, political stability and better economic management have also contributed.

On the basis of good economic management, Mauritius attracted net inflows $46.78 million in terms of FDI. It has made considerable progress in transforming its economy from a low-income country to a middle-income country based primarily on the production and exports of sugar and textiles. This progress was made possible by a combination of sound macroeconomic and structural policies, steady investments in economic and social infrastructure, and preferential access to the European Union (EU) market under the sugar protocol and to world markets under the Multifibre Arrangement (MFA). This has enabled Mauritius to make important progress towards achieving several of the Millennium Development Goals (MDGs). In 2006, Gross Domestic Product (GDP) growth is estimated to have been 3.9 per cent, up from 1.2 per cent in 2005 due to strong growth in tourism and some recovery in the textile sector (OECD, 2007).

Such economic health makes Mauritius a rich context for strategy research. The economic success of Mauritius has been predominantly studied by economists and policy makers (Wignaraja, 2004. Although there are frequent, albeit implicit, references for further micro level analyses of key success factors in the management and organisation of business enterprises, there has been very limited academic attention devoted to the conduct of such studies. Current studies and debates in the field of strategic management encompass a wealth of issues like resource deployment and optimisation, capability-building, organisation theory and design, industry selection, competitive positioning and diversification, management of technology and knowledge. But the agenda they address is not always compatible with the needs African business and management. Africa is culturally and institutionally different and diverse and there is a need to develop management knowledge that is firmly wedded to African aspirations, issues, institutions and cultures. Western management traditions, methods and principles cannot be simply transposed to Africa. Successful strategy will be one that works in tandem with the African institutional and cultural fabric and penetrates the African way of doing business or how business is done in Africa. The concept of 'strategy' needs to be reconstructed through the lens of Africa and from what is known of its businesses.

Strategy Research in Sub-Saharan Africa: Preliminary Conceptualisation and Research Questions for the Mauritian Context

The field of strategic management now offers many different views on how to compete for resources and customers (Segal-Horn, 2004, Whittington, 1996, 2002). This implies that strategic decision-making is a complex activity and difficult if we consider contexts which are continuously changing and culturally diverse. The gradual examination of strategy theory in new grounds is proof of it being a vibrant subject continuously responding to the needs of organisations and managers around the world.

In that respect, the rapid growth of emerging economies has received increased attention in recent years. Since the first major overview of the field by Hoskisson and colleagues (2000), numerous efforts have appeared to push the frontier of this research. In addition to journal articles (Peng, 2003; Wright et al 2005,) books which cover more than one country or region in this area include Cavusgil et al. (2002), Estrin and Meyer (2004), Hooke (2001), Mathews (2002), and Peng (2000). Most of these studies warn against the 'wholesale adoption of developed economy-based theoretical and methodological' (Wright et al, p.2) strategy approaches in emerging economies. They contend that that these economies are very heterogeneous and such differences are magnified when their economic and institutional developments are considered. These variations mean that existing strategy theories and methodologies are not equally effective in driving a strategy research agenda among emerging economies and have to be appropriately examined and tested.

Hoskisson et al. (2000) and Wright et al (2005) propose a generic theoretical framework for strategy research in emerging economies. They combine four conceptual perspectives – transaction cost theory (TCT), agency theory (AT), resource-based theory (RBT) (including capabilities, knowledge, and learning perspectives), and institutional theory (IT) to four broad strategic alternatives available to firms associated with emerging economies. The four strategic options are identified as follows. First, in the early stage of development, particular importance is placed on the strategies of foreign firms from developed economies (or multinational enterprises) entering emerging economies to exploit the skills and resource base developed in their home markets. Second, incumbent and start-up firms in emerging economies are likely to develop exploratory strategies as markets improve in their domestic market. As emerging economies become more developed, both sets of strategies may change as a result of firm learning and changes in the institutional infrastructure. As development occurs, foreign firms may reconsider their mode of operation and even their presence in emerging economies. But two further strategic options may also become more important and challenge the conventional wisdom about firm behaviour in emerging economies. As a third strategy, some emerging economy firms may seek to enter other emerging economies and exploit the expertise developed in their domestic markets. Fourth and finally, some emerging economy firms may also seek to enter developed economies (see Table 1). Very little is known about any of these four groups of firms in the context of Africa. This research proposes to examine the appropriateness of different conceptual approaches and four broad strategies in the context of African businesses (starting here with Mauritius). African economies, like Mauritius, provide a new context in which to understand the relative strengths and weaknesses of these different theories and strategies, whilst developing a literature relevant for businesses in that part of the world.

A preliminary consideration of these theories in the African context already suggests several theoretical and methodological issues and challenges that will need further evaluation, probing and testing. For instance, TCT studies the influence of transaction costs on whether market, hierarchy, or hybrid forms are the most appropriate governance mode (Williamson, 1975). Very few studies have applied TCT when probing into emerging economies. Those studies which have tried have often found it useful to link this perspective with IT (Meyer, 2001), given the institutional differences between developed economies which present new challenges to overcome transaction cost problems. AT is concerned with the problems involved in creating the most appropriate form of governance to ensure that managers as agents act in the interests of owners (Jensen and Meckling, 1976). Although AT has been widely used in developed economies to examine the monitoring of firms, there is relatively little AT-based research concerning the four broad categories of firms identified earlier. Regarding both these theories, Hoskisson et al. (2000) suggests that challenges are likely to arise in emerging economies (as in African economies) because of weak institutional infrastructures due to information asymmetries and uncertainties arising from economic and political instabilities and a lack of market-based management skills.

Similarly, the RBT is concerned with the influence of firm resources and capabilities in explaining why firms differ and how they achieve and sustain competitive advantage (Barney et al., 2001). Starting in the early 1990s, RBT has gained considerable influence in the strategic management (Barney et al., 2001) and international business literature (Peng, 2001). RBT raises new puzzles and questions for firms in the African context. Firms here may face resource scarcities and obsolescence where resources that were valuable under a former institutional regime become less valuable under more market oriented institutions. Certainly, organizational arrangements such as business groups (conglomerates) and networks may have evolved in African economies as a way of dealing with problems of underdeveloped market institutions. However, as African economies evolve as market oriented institutions, business groups as well may need to restructure in order to access the resources and capabilities necessary to succeed in a more developed or demanding market environment. A central challenge for this perspective concerns the need to understand the barriers to the acquisition of these resources and capabilities and how they might be overcome or be integrated for effective performance.

IT focuses on the role of the political, social, and economic systems surrounding firms in shaping their behaviour (North, 1990). While the rise of new institutionalism has been found throughout the social sciences since the 1970s, IT's ascendance as a leading perspective in strategy is a more recent phenomenon (Wan and Hoskisson, 2003). A hallmark of emerging economies (and indeed of African economies, see Jackson, 2004) is institutional transitions defined as 'fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organisations as players' (Peng, 2003, p. 275). Not surprisingly, research on emerging economies has helped propel this perspective as a dominant theory in of the strategy research agenda (Wright et al. (2005). But is this needs further evaluation with regard to Africa. There are numerous challenges concerned the need to consider the impact of the speed and nature of institutional change upon firm strategies, as well as a need to examine the interaction between IT and other theories. It may also fail to account for a lot of the cultural nuances that pervades the African business culture. From a cross-cultural perspective, Jackson (2002) argues that many organizations in Africa remain disconnected from their cultural context, and the simple transfer in of Western management technologies does nothing to change this. A constructive research agenda begs the investigation of the nature management within African communalistic societies, the extent to which this is 'captured' within corporations, and the ways in which organizations may seek to incorporate this into their corporate sphere.

But the immediate concern of this research is the Mauritian context. Africa is too big to allow for considered testing of a well-defined research agenda. The questions in Table 1 are designed to enable and focus such an effort, although they need to be further refined as the conceptualisation is refined.

Table 1: Some questions to advance theory and research in strategy in sub-Saharan Africa: the Case of Mauritius

Theories/Broad strategic alternatives	*Firms from developed economies entering Mauritius*	*Domestic firms competing within Mauritius*	*Firms from Mauritius entering other developing or emerging economies*	*Firms from Mauritius entering developed economies*
Transaction Cost Theory (TCT)	• How do variations of transactions costs between countries and over time explain variations of entry mode?	• Ho do transaction costs influence restructuring in Mauritius? To what extent is such restructuring moderated by AT and path dependencies? • How does TCT explain diversification strategy of business groups in Mauritius?	• Do Mauritian firms entering other emerging economies experience lower transaction costs than developed economy firms entering such markets?	• How do Mauritian firms appropriate local partners and/or acquisition targets in developed economies? • How does the nature of diversification of Mauritian firms (related or unrelated; centralised or decentralised) affect their ability to learn from entry into developed economies?
Agency Theory (AT)	• How do control mechanisms of foreign firms and venture capitalists entering Mauritius differ from those of domestic investors? • How do such differences manifest themselves in strategies of investors and investees?	• Why are outside board directors and new managers hypothesised by standard agency theory models, seemingly to be unable to make a difference in firm performance? • To what extent do different privatisation methods and pre-emergence ownership structures create path dependencies that restrict learning? • What are the appropriate governance structures for local start-ups in Mauritius? • What is the role of venture capitalist firms in monitoring start-ups in Mauritius? •	• To what extent are broader stakeholder agency theory perspectives appropriate? • To what extent do weak governance structures lead Mauritian firms to enter other emerging economies as it is ‘easier’ but does not necessary contribute to learning and performance?	• Ho do control mechanisms of Mauritian firms entering developed economies differ from those of incumbents in developed economies? To what extent does adaptation occur? • What changes in governance factors are needed to enhance the effectiveness of entry of Mauritian firms into developed economies?

Resource Based Theory (RBT)	• Why is perceived organisational fit between foreign and domestic firms, long regarded as crucial for resource acquisition success, negatively correlated with pos-acquisition performance?	• How do Mauritian firms manage the reconfiguration of their resources necessitated by a changing environment? • Why do some start-ups which aggressively internationalise often regarded as a crucial capability to help them succeed seem to have a lower likelihood of survival?	• To what extent do diversify business groups in Mauritius exploit competitive advantage in other emerging markets? • Do 'old' social capital and networks facilitate or restrict learning and entry?	• To what extent does being product diversified restrict Mauritian business groups from entering developed economies? • What is role of social capital in facilitating or restricting learning and entry? How does this social capital change?
Culture and Institutional Theory (AT)	• How do informal institutions complement formal institutions to explain foreign investor's entry strategies? • To what extent do problems arising from institutional differences increase transaction and agency costs and lead to the exit of foreign entrants? • How does national culture influence the strategies of foreign entrants in Mauritius?	• Is there any convergence among individual beliefs and values and firm strategies in the local economy? • How do start-ups concoct their strategies to adapt or compete in the local economy?	• To what extent do institutional differences between emerging economies create a need for Mauritian firms entering other emerging economies to change business models? • Do Mauritian firms have advantages vis-à-vis developed economy firms in entering other economies? • What is the role of culture in influencing the internationalisation of Mauritian firms?	• What impact do differences in institutional framework between African economies and developed economies have on the ability of their African/Mauritian firms to use their network based approaches to business? • Are firms from particular African economies likely to be more successful at developed economies than others? What is the case in Mauritius?

(Source: extended and adapted from Wright et al., 2005, p.23/24)

Conclusion and Implications for Theory and Practice of Strategy: Some thoughts?

In conclusion, it is hoped that the African context has the potential to push the frontier for strategy theory and practice in emerging economies. While much work is being done, research from that part of the world is still lacking. The diversity of the African business context represents fertile grounds not only for testing existing theories but also for developing newer ones. These endeavours are likely to greatly enrich the strategy enterprise globally.

The business world of Africa is an under-researched strategic context. This paper proposes a conceptualisation to help important empirical and theoretical work in that direction. Note, this paper is not saying that this agenda or these questions, or indeed Mauritius, is representative of Africa. Indeed, Africa is a huge continent comprising of extremely diverse cultures and a rich diaspora of businesses. But time and again, Mauritius has proven itself as an economic success in Africa and frequently quoted as an example for many African countries in need of such progress. It is hoped this strategy research will start to shed light on a number of issues and challenges that underpin the management of organisations and environments relevant to that part of the world whilst providing new grounds to test and refine strategy theories developed in mature and well-developed markets.

References

Aulakh, P., Kotabe, M. and Teegen, H. (2000). 'Export strategies and performance of firms from emerging economies: evidence from Brazil, Chile, and Mexico'. Academy of Management Journal, 43, 342–61.

Barney, J., Wright, M. and Ketchen, D. (2001). 'The resource-based view of the firm: ten years after1991'. Journal of Management, 27, 625–41.

Cavusgil, S. T., Ghauri, P. N. and Agarwal, M. R. (2002). Doing Business in Emerging Markets. Thousand Oaks, CA: Sage.

Economist (2006) Business in Africa: The flicker of a brighter future, September 7th.

Estrin, S. and Meyer, K. E. (Eds) (2004). Strategies for Foreign Investors in Emerging Economies. Cheltenham: Elgar.

Grant, R. (2004) “Contemporary strategy analysis”, 5th edn, Oxford: Blackwell

Hooke, J. (2001). Emerging Markets. New York: Wiley.

Hoskisson, R., Eden, L., Lau, C-M. and Wright, M. (2000). ‘Strategy in emerging economies’. Academy of Management Journal, 43, 249–67.

Jackson, T. (2004) “Management and change in Africa: a cross-cultural perspective”, London: Routledge.

Jackson, T. (2002) “Cross-cultural theory and methods in ‘Management and Change in Africa”, Africamanagement.org, downloaded 10/04/06

Jensen, M. and Meckling, W. (1976). ‘Theory of the firm: managerial behavior, agency costs, and ownership structure’. Journal of Financial Economics, 3, 305–60.

Johnson G. and Scholes K., (1993) “Exploring Corporate Strategy”, 3rd edn, Prentice-Hall, Englewood Cliffs, NJ

Lall, S. and Wignaraja, G. (1998) “Mauritius: Dynamising Export Competitiveness, Commonwealth economic Paper No.33, Commonwealth Secretariat: London

Mathews, J. (2002). Dragon Multinational. Oxford: Oxford University Press.

OECD (2007), African Economic Outlook: Mauritius, http://www.oecd.org/dataoecd/26/38/38562882.pdf , downloaded 26/02/08

Meyer, K. E. (2001). ‘Institutions, transaction costs, and entry mode choice in Eastern Europe’. Journal of International Business Studies, 32, 357–67.

North, D. C. (1990). Institutions, Institutional Change, and Economic Performance. Cambridge and New York:Cambridge University Press.

Peng, M. W. (2000). Business Strategies in Transition Economies. Thousand Oaks, CA and London: Sage.

Peng, M. W. (2001). ‘The resource-based view and international business’. Journal of Management, 27, 803–29.

Peng, M. W. (2003). ‘Institutional transitions and strategic choices’. Academy of Management Review, 28, 275–96.

Pettigrew, A. (1985) “The Awakening Giant: continuity and change in ICI”, Oxford: Blackwell

Segal-Horn, S. (2004) “The Strategy Reader”, 2nd edn, Oxford: Blackwell.

UNCTAD (2006) World Investment Report: FDI from Developing and Transition Economies: Implications for Development, Geneva: United Nations Conference on Trade and Development.

Versi, A. and Kufuor, J. A. (2004) “Formula for Africa’s rapid growth” African Business; Aug/Sep2004 Issue 301:14-23

Whittington, R. (1996) 'Strategy as practice.' Long Range Planning, 29: 731-735.

Whittington, R.(2002) ‘Practice perspectives on strategy: unifying and developing a field, strategy-as-practice.org, downloaded on 05/05/06

Wignaraja, G., Lezama, M. & Joiner D. (2004) “Small States in Transition: from vulnerability to competitiveness”, London: Commonwealth Secretariat

Williamson, O. E. (1975). Markets and Hierarchies. New York: Free Press.

Wright, M. Filatotchev, I., Hoskisson, R.E. and Peng, M. W. Peng (2005) Guest Editors’ introduction strategy research in emerging economies: challenging the conventional wisdom, Journal of Management Studies 42:1, 1-33.