Africa

The New Frontier for Global Strategy Scholars

Mol, Michael J.; Stadler, Christian; Ariño, Africa

Document Version
Accepted author manuscript

Published in:
Global Strategy Journal

DOI:
10.1002/gsj.1146

Publication date:
2017

Africa: The New Frontier for Global Strategy Scholars

Michael J. Mol, Christian Stadler, and Africa Ariño

Journal article (Accepted manuscript)

AFRICA: THE NEW FRONTIER FOR GLOBAL STRATEGY SCHOLARS

Editorial for Global Strategy Journal Special Issue

Michael J. Mol

Department of Strategic Management and Globalization

Copenhagen Business School

Christian Stadler

Warwick Business School

University of Warwick

Africa Ariño

IESE Business School

University of Navarra

ABSTRACT

Context matters in the global strategy literature. We discuss how Africa, as a setting that received limited attention in the past, offers opportunity to challenge existing theory, and develop new insights. The overall goal is to ask: What will the field of global strategic management look like once we have engaged with Africa in a similar manner as we have done with other emerging economies? We also introduce the papers published in this special issue and highlight directions for future research.

INTRODUCTION

Silence. That is the one word that has best categorized the strategic management and international business literatures when it comes to Africa. This stands in stark contrast to the increasing number of articles using data from other emerging economies, particularly Asian countries like India and China (see the special research forum in *Academy of Management Journal* for example: Barkema, Chen, George, Luo, & Tsui, 2015). While Africa presents a particular challenge for scholars in terms of data access and funding for universities to support research, there is now hope that this silence will not last much longer.

A primary reason for this optimism is the opportunity presented by Africa as an un(der)explored context. The efforts directed towards China and India allowed scholars to challenge established ideas such as the inverted u-shape relationship between performance and diversification level (Palich, Cardinal, and Miller, 2000; Khanna and Palepu, 2000). These authors also drew attention to phenomena such as the role of the state in internationalization (Peng and Heath, 1996) or institutional voids in host countries (Khanna and Palepu, 2000). In global strategy context is not just a control variable but a central construct that shapes theory (Tallman and Pedersen, 2015). Not studying Africa means that we will not be able to develop theory that explains the mechanisms of the informal economy and the transition from informal to formal economy firms. It means that we will not be able to fully appreciate the new ecosystems that mobile payment systems such as MPESA created. And it means that we will not fully understand the complex relationship between business and politics.

The second reason why silence is unlikely to prevails is Africa's rise. Again taking China and India as an example, as these countries went through a period of economic growth and started to play a more active role internationally scholars started to pay more attention. This was particularly true for an increasing number of scholars from these countries but trained abroad (e.g. Tarun Khanna and Mike Peng). While they understood local conditions, they were able to frame research in a way that was relevant to scholarly discussions. Africa is set for a similar economic development, and it is our expectation such scholars are going to emerge from Africa. In 2015 Africa was home to four of the ten fastest growing economies globally[1]; foreign direct investment inflows were US$ 71.3 bn[2]. Nigeria and Zambia have the highest proportion of early stage entrepreneurs, African multinationals like Dangote Group and MTN are in the limelight, and in 2014 the US government held a business summit in order to catch up with China's influence on the continent.

While the African marketspace is an increasingly attractive place to compete in firms also face challenges, for instance because Africa is widely perceived to suffer from

[1] http://uk.businessinsider.com/world-bank-fast-growing-global-economies-2015-6/#turkmenistan-12
[2] https://www.fdimarkets.com/explore/

political instability, corruption, poverty, and ongoing military, religious and ethnic conflicts many of which extend across country borders. Perceptions are often faulty as such descriptions do not apply uniformly to Africa but the continent continues to struggle with its negative image. As we developed this special issue on Strategic Management in Africa our primary intent was to foster scholarship but we do hope to also contribute to an increasing sense that Africa is a place to do business. The contributions in this special issue will help firms to better understand some of the aspects they need to consider when doing business in Africa.

RELEVANCE OF AFRICA

A growing number of scholars started to exploit the uniqueness of Africa in their attempt to advance theory (e.g. Acquaah, 2012; George, 2015; Meyer, Estrin, Bhaumik, & Peng, 2009; Ozcan & Santos, 2014; Uzo & Mair, 2014). This special issue on Strategic Management in Africa is meant to accelerate such efforts. We see several reasons why Africa should be considered a promising research setting for strategy scholars, both for empirical (phenomenon-based) reasons as well as due to the potential for Africa to help inform our theories of global strategy. The record number of submissions received for this special issue at Global Strategy Journal suggests that others take a similar view. What are the reasons Africa offers such promise?

First, the scarcity of work on and in Africa means there is currently a lack even of a sheer descriptive understanding of strategic management in Africa, i.e. questions like: What strategies are in use; what is the nature of the institutional and industry environment in which firms creates strategies; even what kinds of firms do we find in Africa, including in the informal economy.

Second, Africa may be home to strategic practices not found elsewhere, meaning some empirical phenomena may be specific to Africa. Some of these practices are very intertwined with the notion that the informal economy is of great importance in Africa. An example of this are portfolio entrepreneurs who run several relatively poorly defined businesses simultaneously, shifting attention from one to the next as demand dictates, and who are commonly found in parts of Africa but are alien to most of the rest of the world. Another example is that many businesses start in the informal economy and incorporate after a growth period or formalize part of the business while others remain in the informal economy. Africa also allows us to look at the role of foreign aid in conjunction with business investment; the two can sometimes be seen as pure substitutes, but there is clearly also some business activity by foreign multinationals that has come about through subsidies and other incentive schemes. Particularly micro-finance initiatives and solar energy present settings to study this in more detail.

Third, given that almost all of our existing knowledge about firm strategies has emerged from outside of Africa, there is clearly a lot of room for empirical tests of what we believe to be existing wisdom, i.e. replication research. Some leading journals are starting to welcome replication research – e.g., the *Strategic Management Journal* has published very recently a Special Issue on Replication in Strategic Management (Volume 37, Issue 11). The types of replication studies with potential to confirm or challenge our theories are those that go beyond straight replication to provide explanations for why we should or should not expect those theories to apply in a new setting. Africa being an under-researched region, it seems to be a worthwhile effort to test whether our theories apply there, and whether Africa is really different or rather like everywhere else (Mellahi & Mol, 2015).

Fourth, and this relates somewhat to the third point, African countries are outliers on some dimensions, including poverty, war, and diseases but also in terms of mobile payments (in 2013 43% of Kenya's GDP[3] flowed through MPESA, a mobile payment system). This implies that by excluding Africa from prior research our scholarly community has only observed some part of the range on both independent and dependent variables, not the full range. This in turn means conclusions from prior empirical research may be misguided. The challenge therefore is to see whether by including Africa in multiple country samples results remain the same.

At the theory level, we see research on Africa as helping to advance the theory of strategy (George, 2015), in the same way that the large number of studies published over the past few decades on emerging economies like China and India has produced some significant advances in the theory of strategic management, management more broadly, and international business, without necessarily producing any radically new theories as yet. That body of research has made global strategy scholars rethink the usefulness of existing theories, for instance the notion that is central to OLI theory that investments ought to flow from develop to less developed economies, and never the other way around (Hennart, 2012). This research has also firmly put (back) on the agenda the importance of the institutional environment for firm strategies, for instance in terms of how institutional voids affect diversification choices (Khanna and Palepu, 2000). Research on Africa, similarly, might lead us to reconsider whether our current set of predictor

[3] http://www.forbes.com/sites/danielrunde/2015/08/12/m-pesa-and-the-rise-of-the-global-mobile-money-market/#656dca9423f5

variables of firms' strategies is sufficient and how the institutional environment could moderate or mediate the relationship between firm strategies and performance outcomes. Below we speculate further on some specific directions this could take.

SPECIAL ISSUE ARTICLES

Before introducing each of the articles in this special issue, we want to say a few words about the selection process, and to briefly dwell on some common themes we have recognized in the set of selected papers. Given the increasing attention that Africa has gained in recent years, we expected that our Call for Papers would be well responded. However, our expectations were surpassed when we learned that 60 manuscripts had been submitted for consideration. Out of those 60 papers, 26 were withdrawn or desk rejected -- due to a lack of fit with the scope of the journal or with the aim of the special issue, or because they were clearly underdeveloped -- and 24 were rejected after being reviewed. We were happy to accept the 6 high-quality papers that appear in this issue. As we write this, the remaining manuscripts are still being considered for eventual publication in a regular issue.

As mentioned above, a number of common themes emerge from the articles in this special issue. Various articles try to look at Africa from a developing country angle, looking particularly at the institutional characteristics and how these affect firm strategies, and specifically arguing Africa is a good case for looking not only at institutional voids, but also how organizations can actually creatively exploit these institutional voids to compete with competitors from elsewhere that are perhaps better endowed. A second set of common issues is around the difficulty of getting good firm specific data in an African context, an issue we as editors have also discussed at various conferences where we organized sessions on strategic management in Africa. For some the response is to go qualitative and take the deep dive. For others, the response may be to restrict research questions and designs to what is feasible, rather than what is ideal. A third common characteristic is that the authors place much more emphasis on context than most articles in our field by offering some strong descriptions of the country and industry level factors that sit around the phenomenon which is investigated. It has long been lamented (Cheng, 1994) that in our efforts to produce universal theories we tend to underemphasize context. In Africa context is arguably all that matters, and in that sense Africa might offer the field opportunities to bring context back into the study of strategic management.

We now look at each of the articles in this special issue, starting from the more macro oriented studies and moving towards micro level studies. In doing so, we try and answer three questions: What does the paper tell us; why is this interesting; what does it teach us that is novel?

In a two-stage study, Stevens and Newenham-Kahindi (2017, this issue) examine how legitimacy spillovers affect the political risk of foreign companies investing in the East Africa Community (EAC) – a region where FDI has increased rapidly despite political risk. In the first stage, the authors draw from the legitimacy-based view of political risk to theorize about how within-country and across-country legitimacy (or illegitimacy) spillovers arise, and how they affect firms' political risk. Within-country spillovers stem from the legitimacy of other firms from the same country as the focal one, while across-country spillovers arise from the focal firm's own legitimacy in one country, which is transfered to other countries. Propositions that link the two types of legitimacy spillovers to systematic variance in firms' political risk in the EAC are illustrated with qualitative evidence from interviews with both local and foreign stakeholders. This set of interviews pointed to factors that might moderate the relationships between legitimacy spillovers and political risk. In the second stage of the study, Stevens and Newenham-Kahindi (2017, this issue) collect additional evidence that allows them to explore moderation effects, and then generate new propositions that extend their initial theorization. This study sheds light about FDI in an under-studied region like the EAC, and more importantly, it extends the literature on political risk by identifying that within- and across-country legitimacy spillovers affect firms' political risk, and the existence of factors that moderate these relationships.

A prevalent lack of skilled labor is one of the challenges that companies from sub-Saharan Africa face. Drawing from the knowledge-based view of the firm, Wang and Cuervo-Cazurra (2017, this issue) argue that external and internal organizational upgrading mechanisms have differential effects on performance improvement, and that these effects vary depending on a country's level of human capital development. They focus on two mechanisms: operating a joint venture with foreign partners (external upgrading mechanism) and the use of research and development (internal upgrading mechanism). The empirical analysis of a large sample of companies from ten sub-Saharan Africa countries reveals that operating a joint venture with foreign partners helps overcome the negative consequences on performance improvement of the lack of skilled human capital, and this effect is independent of a country's level of human capital development. In contrast, internal R&D amplifies those negative consequences, and these are even worse the lower a country's level of human capital development. This study extends existing theory by identifying a country's level of human capital development as a contingency that affects the effect of internal R&D on firms' performance improvement. In addition, this study underscores that Africa cannot be treated as a homogenous reality.

Getachew and Beamish (2017, this issue) investigate divestment by foreign multinational firms in an African context, using Japanese subsidiaries to study this. Perhaps unsurprisingly, given that Africa on the whole clearly presents a higher risk environment, exits of these subsidiaries are more likely in Africa than in the set of OECD countries. But the authors also find that firms can apply mechanisms to mitigate this problem, specifically by being market-seeking in their investments and having a broader set of purposes when entering. Given the increasing investment stream into Africa the question of which investments are more or less likely to fail has clear practical value. But it is equally interesting from an academic perspective because this article confirms in an African context the basic tenets of work around institutional voids, which suggests that higher levels of diversification are entirely appropriate where institutional voids are high, and further adds to this the notion that scope is not just a firm level trait (as is the case in much earlier work on institutional voids, starting from Khanna and Palepu, 2000), but can be investigated at the subsidiary level too. This raises several interesting issues for future research, for instance how subsidiary and firm level scope would interact.

Luiz, Stringfellow and Jefthas (2017, this issue) pick up the topic of internationalization from Africa, both within and outside the continent, by presenting the case of South African Breweries as an example of how firms' proclivity to engage with weak institutional environment may change over time, such that processes of institutional complementarity and institutional substitution can take place during different episodes in a firm's internationalization process. There is clearly value in understanding the experiences of SAB as such, because it is one of few large multinationals from emerging countries with a long historical internationalization trajectory. But we also think this paper provides an interesting take on the limits faced by firms from emerging countries when they try to continuously exploit the advantages they have in weak institutional environments. This article enhances existing insights on internationalization processes and furthers our understanding of the ways in which multinationals from emerging countries can try and turn their capability of managing institutional voids into an advantage. One question this raises for future research is what conditions allow firms to do this, i.e. when does it (not) work?

Klopf, Holm, Nell, and Decreton (2017, this issue) study the responses to the conflicting institutional demands (see Kostova and Roth, 2002; Oliver, 1991; Pache and Santos, 2010; 2013) faced by a Cote d'Ivoire subsidiary of a German e-commerce firm. In a series of colourful case studies, the authors show how demands from the headquarters often did not fit the local business environment. The subsidiary responded to conflicting institutional demands in a dynamic way. In some cases, the local managers ignored the demands from headquarters, in others they adopted them, sometimes partially. The response was not always intentional in the sense that the subsidiary responded in a way they presumed was satisfactory but subsequent pressures from their headquarters or their local environment forced them to find a different solution. The most interesting aspect of this article is introduction of temporal considerations into the discussion of institutional duality (Hillman and Wan, 2005; Kostova and Roth, 2002). As the authors show it often requires a series of responses to satisfy all actors.

Manning, Kannothra, and Wissman-Weber (2017, this issue) present impact sourcing as a hybrid strategy that might work particularly well in Africa. Impact sourcing seeks to combine profits and purpose by making use of disadvantaged staff to deliver business services. The authors argue that given the lack of competition among vendors, African-based vendors currently have an advantage in this area. Impact sourcing is of increasing interest to buyer firms in developed countries that want to demonstrate social responsibility, which their stakeholders are increasingly pressuring them to do. It also raises interesting conceptual issues, which the authors look at by invoking the Tripod model of Peng, Sun, Pinkham and Chen (2009), which emphasizes interactions between firms, industries and institutional environments. A more general takeaway of this article is that African-based firms have an opportunity to turn perceived disadvantages into competitive advantages, as long as they select the appropriate niche markets. This poses interesting conceptual questions around market selection.

STRATEGIC MANAGEMENT IN AFRICA: FUTURE RESEARCH AGENDA

Clearly there is a lot to learn from these articles and this has already been a very interesting journey for us. But we very much believe that as a scholarly community we are only at the beginning of this journey. What might it look like going forward? Below we lay out some aspects of the research agenda on strategic management in Africa as we would like to see it unfold. We start by reflecting on some of the key challenges of doing research on and in Africa, then discuss viable ways of overcoming these challenges, before returning to the key question what goals we should ultimately be pursuing as a research community writing on strategic management in Africa.

Conducting good empirical strategic management research on and in Africa can be challenging in multiple ways, including cognitively, in terms of data quality and availability, and logistically (Klingebiel and Stadler, 2015). Most researchers in leading business schools have not had much, if any, direct exposure to Africa, which makes it a less than obvious geographical area to focus on. So where to then get started? Secondary data are clearly not abundant and can be of doubtful quality (Klingebiel and Stadler, 2015). As some of the articles in this special issue demonstrate there are ways in which we can effectively redeploy existing data sources to look at aspects of strategic management in Africa. Ultimately though, we need to further develop our data sources, and collect data locally, to continue to make progress.

Conducting field work on Africa can be challenging in terms of getting access to data sources. These challenges can come from usual suspects we deal with in international management like linguistic and cultural differences, but in an African context challenges can also come from the extra effort needed to identify and then reach relevant respondents and to reach out to communities. Consider for instance this statement at the beginning of their methods section of a recently published strategy article on Africa by George, Kotha, Parnaik, Alnuaimi, and Bahaj (2015: 1122): “We spent over three weeks in Kenya to train the data collection team, meet business owners and village leaders, engage local project partners, and ensure community commitment. We trained 20 data collectors to compile a complete census of all households. One of the authors spent three months in Kenya managing the training and data collection process to ensure the acquisition of high-quality data. We involved additional researchers in arranging meetings, coordinating efforts, interviewing, coding, and translating the data. This project took over 5,000 hours of effort.”

Although this quote demonstrates the problems we may face with this kind of research, it also brings out potential solutions to these problems. The last word in the quote, effort, is where all those solutions eventually start. High quality research on strategic management in Africa clearly requires additional effort on our part, but as described above there may also be an additional payoff in terms of the learning that can be generated. The effort can take multiple forms, and admittedly many of the suggestions below are good research practice in any case, whether in Africa or elsewhere.

First, researchers need to consider bridging techniques to help cover the distance between themselves and the empirical context. One obvious solution is for one or more members of the research team to be based in or come from one or more of the African countries in question. But, if well done, local immersion can be a viable alternative to this. Second, it is crucial to consider the nature of the local African context that is being studied, in terms of culture, religion, tribal affiliation, and politics in order to contextualise the research. These contextual factors then ought to impact upon research designs. Third, additional slack and more feedback mechanisms must be built in because in an African context there is a greater need to "expect the unexpected".

Moving forward, we see several interesting grand challenges for strategic management research on Africa, which are partly addressed by the articles in this special issue but require more work still. We organize these challenges around societies, markets, and firms. At the societal level the biggest challenge remains to make foreign direct investment and cross-border economic activity work for the greater good. In Africa all too often foreign investment has been synonymous with exploitation. Research should look further into the impact of organizational strategies on economic development and other societal level indicators in Africa, including social responsibility, to help us understand what works and what does not work.

Markets, and particularly the role played by the strategy of firms operating in those markets, present another interesting avenue for further research. In the African context markets take on a different meaning. For instance, how do entrepreneurial firms operating in the informal economy create markets for their products? What role do Western investors play in the creation of eco-systems and new markets (Klingebiel and Stadler, 2014)? And can providers of online markets help firms in Africa circumvent or bypass institutional voids?

At the firm level, one key question is to what extent the success of firms like SAB, Dangote and MTN can be replicated by other firms in Africa. As researchers we should be seeking to understand success and failure among a larger number of observations. But there are also many interesting questions about how non-African firms enter Africa, for instance in terms of the effects of conflicts, diseases, and political instability on entry mode choices and on the management of African subsidiaries. We very much look forward to seeing more work emerge in this space and believe the articles in this special issue help tackle some of these issues. It would be nice to believe that perhaps ten years on from "East meets West" (Barkema *et al.*, 2015), the management literature can have a similar "South meets North" moment.

References

Acquaah, M. 2012. Social networking relationships, firm-specific managerial experience and firm performance in a transition economy: A comparative analysis of family owned and nonfamily firms. *Strategic Management Journal*, 33(10): 1215–1228.

Barkema, H.G., Chen, X.-P., George, G., Luo, Y., Tsui, A.S. 2015. West meets East: New concepts and theories. *Academy of Management Journal*, 58(2): 460–479.

Cheng, J.L.C. 1994. On the concept of universal knowledge in organizational science: Implications for cross-national research. *Management Science*, 40(1): 162-168.

George, G. 2015. Expanding context to redefine theories: Africa in management research. *Management and Organization Review*, 11(1): 5-10.

George, G., Kotha, R., Parikh, P., Alnuaimi, T., Bahaj, A.S. 2016. Social structure, reasonable gain, and entrepreneurship in Africa. *Strategic Management Journal*, 37(6): 1118-1131.

Hennart, J.-F. 2012. Emerging market multinationals and the theory of the multinational enterprise. Global Strategy Journal, 2(3): 168-187.

Hillman, A. J., Wan, W. P. 2005. The determinants of MNE subsidiaries' political strategies: evidence of institutional duality. *Journal of International Business Studies* 36(3): 322-340.

Khanna, T., Palepu, K. 2000. Is group affiliation profitable in emerging markets: An analysis of diversified Indian business groups. *The Journal of Finance*, 55(2): 867-891.

Klingebiel, R., Stadler, C. 2015. Opportunities and challenges for empirical strategy research in Africa. *Africa Journal of Management*, 1(2): 194-200.

Klingebiel, R., Stadler, C. 2014. What western investors want from African entrepreneurs. https://hbr.org/2014/11/what-western-investors-want-from-african-entrepreneurs (November 11, 2014).

Kostova, T., Roth, K. 2002. Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. *Academy of Management Journal* 45(1): 215-233.

Mellahi, K., Mol, M.J. 2015. Africa is just like every other place, in that it is unlike any other place. *Africa Journal of Management*, 1(2): 201-209.

Meyer, K.E., Estrin, S., Bhaumik, S.K., Peng, M.W. 2009. Institutions, resources, and entry strategies in emerging economies. *Strategic Management Journal*, 30(1): 61- 80.

Oliver, C. 1991. Strategic responses to institutional processes. *Academy of Management Review* 16(1): 145-179.

Ozcan & Santos, 2014;

Pache, A. C., Santos, F. 2010. When worlds collide: The internal dynamics of organizational responses to conflicting institutional demands. *Academy of Management Review* 35(3): 455-476.

Palich, L.E., Cardinal, L.B., Miller, C.C. 2000. Curvilinearity in the diversification-performance linkage: An examination of over three decades of research. *Strategic Management Journal*, 21(2), 155-174.

Peng, M.W., Heath, P.S. 1996. The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice. *Academy of Management Review*, 21(2), 492-528.

Peng, M.W., Sun, S.L., Pinkham, B, Chen, H. 2009. The institution-based view as a third leg for a strategy tripod. *Academy of Management Perspectives*, 23(3): 63-81.

Tallman, S., Pedersen, T. 2015. What is international strategy research and what is not? *Global Strategy Journal*, 5(4): 273-277.

Uzo, U., Mair, J. 2014. Source and patterns of organizational defiance of formal institutions: Insights from Nollywood, the Nigerian movie industry. *Strategic Entrepreneurship Journal*, 8(1): 56-74.