Multinational firms still have a lot to learn about doing business in Africa

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There is an emerging consensus among academics, international agencies, and businesses that the 21 st century is the African century. Democratic processes in the first decade of this century seemed to provide political stability, and resulted in not only advocacy for investments but also an increasing surge of multinational organizations into African countries. As a result, businesses, typified by multinational corporations, are diversifying into Africa to take advantage of the large market, low levels of competition, relatively weak institutions, and profusion of human and natural resources. Collectively, African countries have the largest reserves of mineral deposits, some of which keep the economic wheel of the globe spinning. Indeed, business sectors such as agriculture, retail, banking, infrastructure, natural resources, and telecommunications abound with opportunities.

In a series of studies, I, along with colleagues, have been arguing that there are four major factors that can affect the effectiveness of organizations in Africa:

Context
First, we contend that the African context differs from others in unique ways because of (a) the profusion and diversity of cultural and ethnic groups, (b) seemingly most scaring colonial experiences, and (c) the compatible but bifurcated rural and modern sectors. The modern and rural contexts of Africa represent two distinct backgrounds that can yield drastically different organizational outcomes. The current states of African countries are not only shaped by current exogenous influences but also the past interactions with European colonizers. As a result, the knowledge and behaviors of Africans can contribute to firm productivity but not in the same manner as observed in the West.

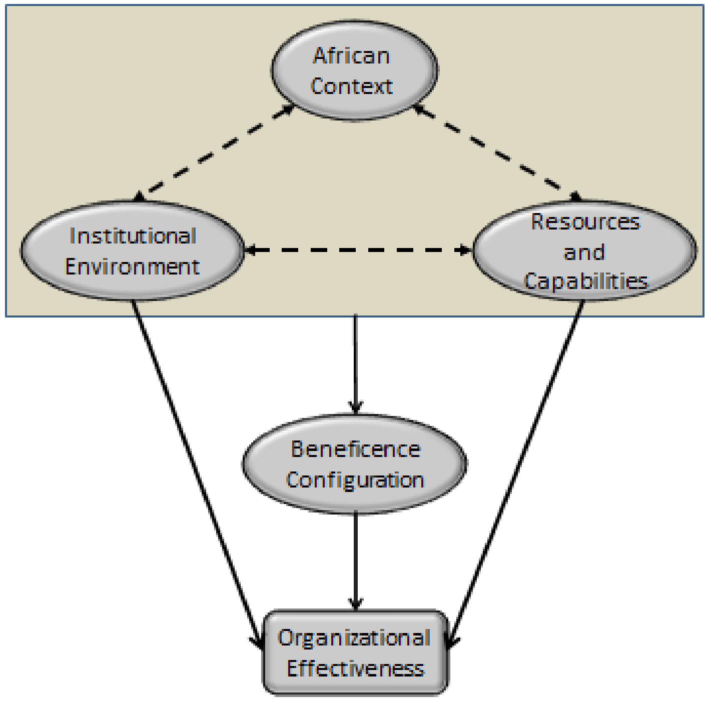
Institutions
Second, we suggest that institutions, the human constructs that regulate interactions, which are predictable in the West, do not seem to function consistent with expectations in Africa. Institutions in Africa are viewed as weak mainly because of, but not solely due to, the cultural context. There seems to be a confluence of formal and informal institutions that affect organizational outcomes in Africa.

Resources
The third factor centers on the resources of Africa. Collectively African countries have large reserves of mineral deposits some of which are indispensable to the industrial engines of not only western countries but also the entire global economy. In total, African countries have about four hundred and twenty-two natural resources that span agro-forestry, minerals, and oil and gas sectors.

Business environment
The last and major factor is the dynamics of the African business environment. The complexity, uncertainty, and ambiguousness of the Africa environment require understanding of the interactive processes of institutions, resources, and cultural attributes across the national, industry, and firm levels. The macro and micro institutional environments jointly affect operations, processes, and outcomes of organizations. These factors define the strategic context in which organizations function.

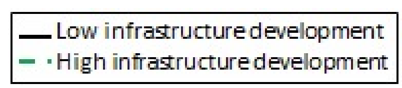
The influence of the strategic context on organizational outcomes is mediated by the beneficence of the environment and the ability of organizations to configure resources (see Figure 1). There is no doubt that the African institutional environment has been maleficent in the past. It has negatively affected organizational outcomes and multilateral initiatives resulting in the African problem, the stereotypical intractable challenge of enhancing sociocultural, economic, political, and scientific development.

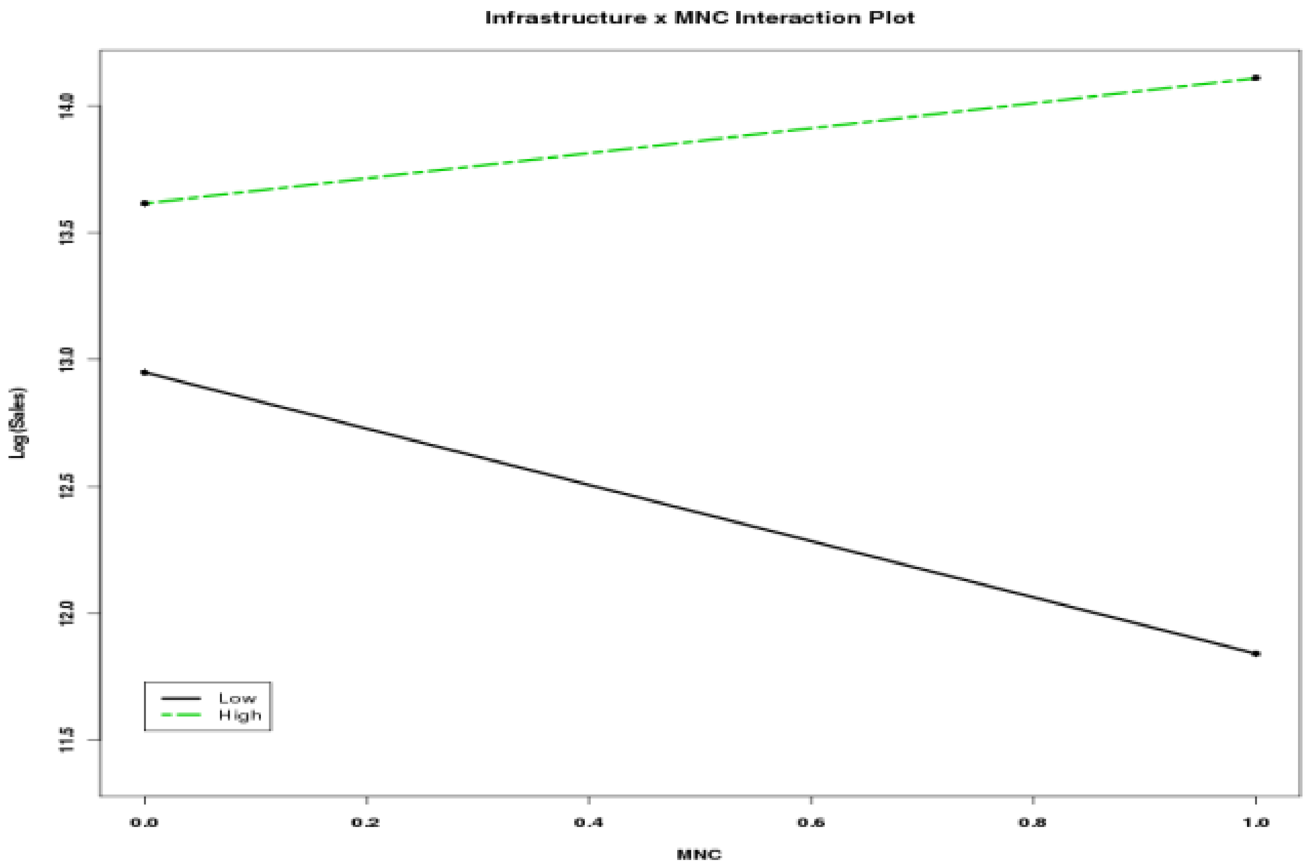
Figure 1: Institutional, Resources, and Contextual Dynamics as Determinants of Firm Performance



The interactive perspective we proposed in our study seems to be supported in another study in which Mburu and I explore the relationship between geographic traps and firm performance in Africa. We found that location traps (landlockedness and bad neighbors) affect firm performance negatively such that firms in landlocked countries had lower sales than those in coastal countries. Net profit of firms in countries with a large number of bad neighbors seemed lower than those in countries with a low number of bad neighbors. Further, we found that firm sales or turnover varied at different levels of infrastructural development in Africa for subsidiaries of multinational corporations (MNCs) and local firms. The former seemed to have higher sales in countries with high infrastructural development but lower sales in countries with low infrastructural development (see Figure 2).

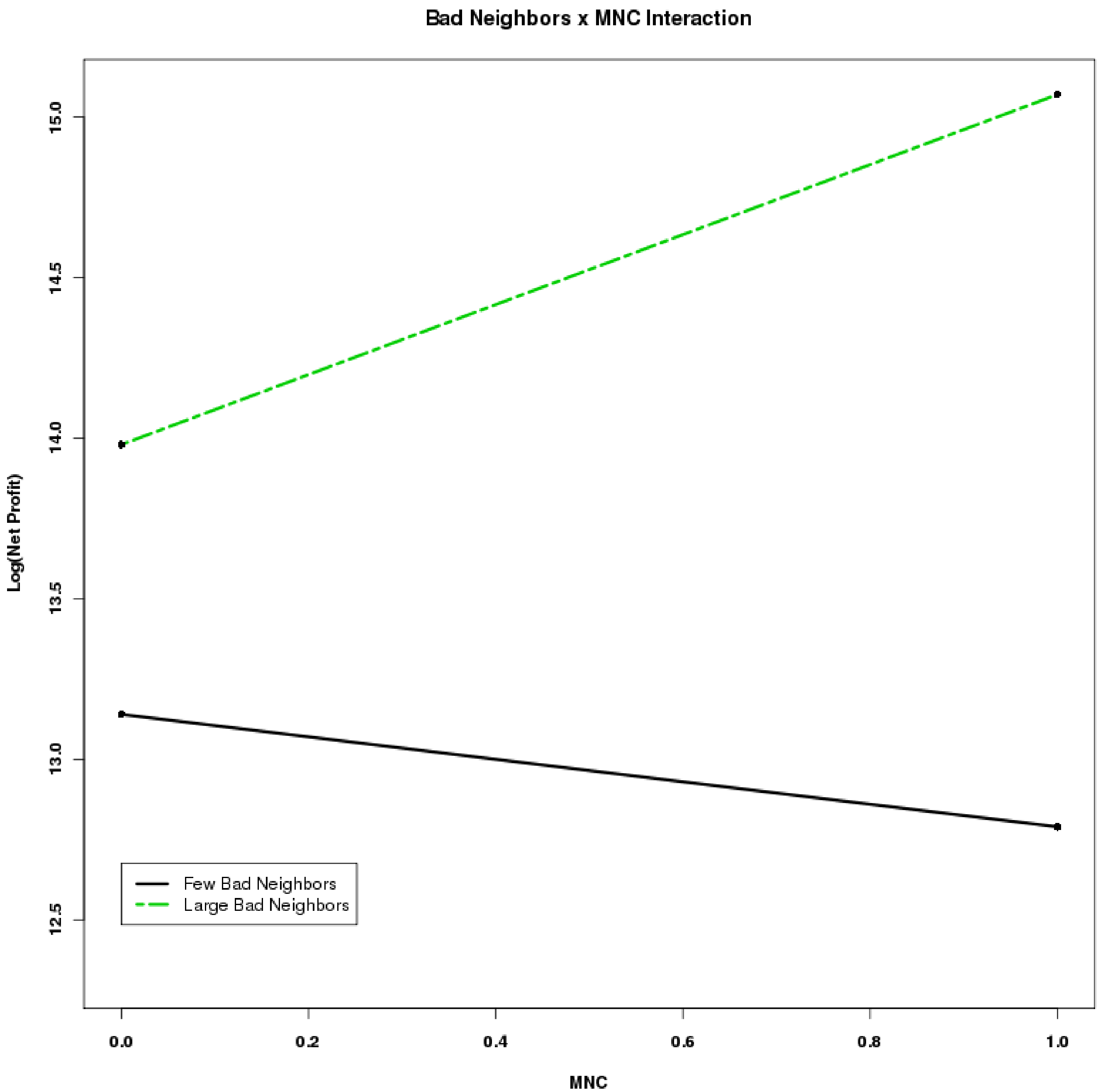
Figure 2: Interaction Plot of Infrastructure and Multinationality on Firm Sales





We also observed that MNC subsidiaries had higher net profit in countries with large number of bad neighbors (see Figure 3). We explained that the resources of MNCs enable the subsidiaries to resolve or overcome constraints from physical geographic traps such as bad neighbors.

Figure 3: Interaction Plot of Bad Neighbors and Multinationality on Firm Net Profit



One major question therefore is how do these factors affect the ability of businesses to exploit opportunities in Africa? In other words, what competencies do they need to successfully maximize their returns when they invest in Africa? **The first competency is knowledge of the African context**, defined to cursory understanding of the intricate network of sociocultural, historical, and experiential contexts of African countries. That foundational knowledge is important for developing **the second competency, knowledge of the institutional environment of Africa.** There are more and relatively effective informal institutions than formal ones in Africa. Harnessing those informal institutions may result in greater outcomes. **The third area of competency is knowledge of the resources and capabilities of Africa.** Even though African countries abound with resources, the configuration of those resources is essential to maximising their potential. The last and major competency is knowledge of the dynamics of these three factors. We contend that this fourth competency seems to be the most important one because of the intrasectoral and intersectoral as well as intra-level and cross-level dynamics that influence firm outcomes.

In conclusion, Africa is emerging as an attractive business location where businesses can achieve greater return on investment. Businesses interested in Africa must therefore be familiar with, and competent in, the strategic context of the African environment.

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Notes:

- *This article is based on two papers: Institutions, Resources, and Organizational Effectiveness in Africa, co-authored by David B. Zoogah, Mike W. Peng and Habte Woldu and published in Academy of Management Perspectives, February 1, 2015 vol. 29 no. 1 7-31; and Are Firms in Developing Countries in Spider Webs or Iron Cages? Geographic Traps and Firm Performance, by David Zoogah and Henry K. Mburu, in Thunderbird International Business Review, Volume 57, Issue 6,pages 481–503, November/December 2015.*
- *This post gives the views of the author, and not the position of LSE Business Review or the London School of Economics.*
- *Featured image credit: Street corner in Dar es Salaam David Davies CC-BY-SA-2.0*

David B. Zoogah is Associate Professor of Business Administration at Morgan State University in Baltimore, US. His current research centres on international management with a focus on Africa; strategic followership; and green management particularly in emerging economies. His research has been published in several internationally recognized journals including the *Academy of Management Perspectives*, *Journal of Applied Psychology, Asia Pacific Journal of Management, International Journal of Cross-Cultural Management, Journal of Occupational and Industrial Psychology, International Journal of Human Resources Management,* and *Journal of African Management (AJOM)*. He has won the Best Paper from the Gender, Diversity and Organization (GDO) and Outstanding Reviewer for the OB Division of the Academy of Management.