

Understanding the Rise of African Business

In search of business perspectives on African enterprise development

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ABSTRACT: In light of recent enthusiasm over the African private sector, this paper reviews the business literature on African enterprise development with a view of identifying lacunas and formulating future research agendas. The paper starts out by proposing a framework for organizing the literature based on a distinction between contingency, strategy and performance. In terms of literature focusing on performance, the paper juxtaposes the traditional pessimistic view of African business performance with more recent, optimistic accounts. It is argued that while a growing number of studies suggest profound improvements in the performance of African enterprises, data limitations, conceptual ambiguities, and absence of comprehensive studies still cautions against sweeping generalizations regarding the performance of African enterprises. The paper proceeds to review the literature on factors shaping the performance of African enterprises. It is observed that while much research is focusing on the challenges and (more recently) opportunities of the African business environment, much less attention has been devoted to firm specific capabilities, strategies and management. The paper concludes by advocating a contingency approach to research on African enterprise development that emphasizes the interplay between firm strategy and the specificities of the African business environment.

I. Introduction

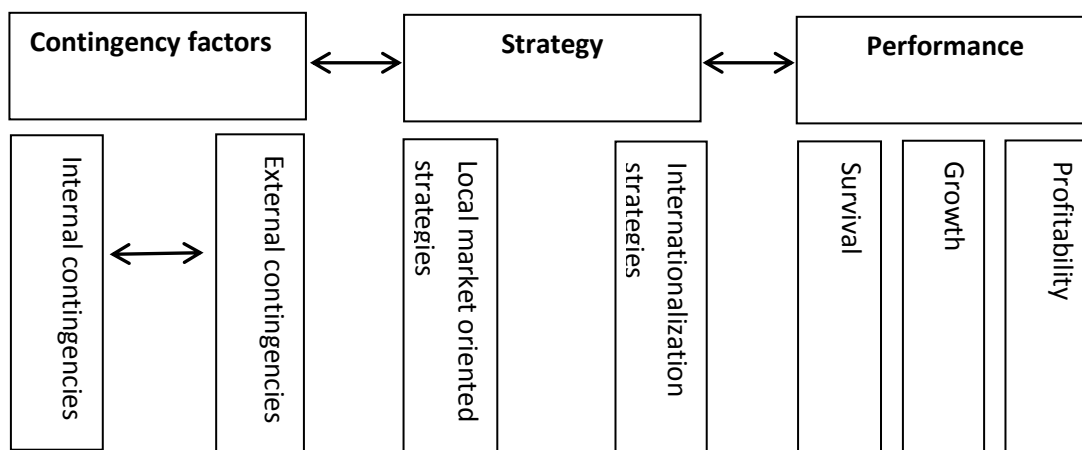
From “The Hopeless Continent” (Economist, 2000) to “The Hopeful Continent” (Economist, 2010), African business lions are rising to fame. Media project that new generations of African firms are turning Africa into “the new Asia” (Newsweek, February 2010). Development organizations are increasingly seeing firms, entrepreneurship and private sector development as the solution to many of Africa’s perils (World Bank, 2005; Commission on Growth and Development, 2008; Danish Africa Commission, 2010).

But behind this hype, what does the literature actually tell about the rise of African enterprises and the factors driving it? And which research gaps need to be filled to ensure a better understanding of the new African business lions? This paper will seek to answer these questions through a review of the business literature on African enterprise development. The paper will review the received literature on African

enterprise development with a view of providing an overview of the literature and of identifying gaps and future research agendas.

In order to organize the literature, we will use the classical distinction within the strategy literature between perspectives that are emphasizing contextual factors, strategy factors, and performance factors respectively (Hoskisson et al, 1998). This distinction is for instance build into the SCP perspective (Bain, 1956), where it is argued that structure (industrial organization) shapes conduct (e.g. strategy) which then again determines performance. A similar logic is found in the so called 'contingency perspective' within strategic management, which argues that effective organizations and strategies are created in the fit between external and internal contingencies (Fiedler, 1964, Kast & Rosenzweig, 1973; Lawrence & Lorsch, 1967; Otley, 1980). This latter perspective is popularized in the so called SWOT analysis (Humphrey, 2005) which understands strategy in the interface between internal strengths and weakness and external opportunities and threats. Inspired by these perspectives – but not necessarily subscribing to their causal

Figure 1: Organizing framework



models – we will in the following organize the contributions to the literature on African enterprise development based on whether they mainly are focusing on contingency factors (e.g. external contingencies related to the business environment or internal contingencies related to firm capabilities and resources); whether they mainly are focusing on strategy factors (e.g. local market versus internationalization strategies), or whether they mainly are concerned with performance factors (e.g. survival, growth or profitability of the firm). The main strength of this framework is that it helps us get an overview of a large and diverse literature and provides a basis for identifying potential gaps and lacunas.

The identification and search for business literature on African enterprise development was done in several steps. The initial literature search concentrated on papers that 1) focused on African enterprise growth rather than failure; 2) were empirically grounded; 3) adopted firm-level perspectives; and 4) were focused on South Sahel Africa (SSA) except South Africa (as South Africa and Northern Africa were assumed to stand out from the remaining parts of Africa in many respects). The results of the literature search were coded using document analysis. Document analysis is defined as a systematic procedure for reviewing or

evaluating documents (Bowen, 2009). In practice, the articles were read in several steps (skimming, thorough examination, interpreting) and categorized. The categorized literature was then juxtaposed with the framework presented in Figure 1. The result of these analyses formed the basis for depicting the literature, identifying possible gaps, and outlining avenues for future research.

The paper is organized as follows: first we will review studies that provide evidence regarding the alleged rise of African enterprises ('performance'). Second, we will review the literature's debates on what the possible drivers of African enterprise growth could be ('contingencies'). Third, we review the literature that emphasizes strategy factors ('strategy'). Finally, based on the review of the existing literature, the paper will outline the contours of future research agendas on African enterprise development.

II. The rise of African enterprises: hype or reality?

Traditionally, the literature has painted a bleak picture of SSA enterprise performance. For instance, Pedersen and McCormick in a literature review from 1999 discuss the extreme fragmentation and low performance of African business systems and attribute this mainly to institutional and historical factors. During the 1990s, the World Bank's Regional Program on Enterprise Development (RPED) collected data on a large set of manufacturing firms in several African countries. Generally, this survey suggested very weak performance of African firms. Based on RPED survey, several studies (e.g. Teal, 1999; World Bank, 2005) concluded that the competitiveness of African firms was severely constrained by institutional, industry and firm level barriers.

Recently, however, a wave of more optimistic reports on the performance of the African private sector has surfaced. Accenture, in a study entitled "Africa: The New Frontier for Growth" (2010), argues that it is time to move beyond BRIC to view Africa as the new emerging market, considering that the growth of Africa's gross domestic product (GDP) of more than 5% during the 2000s makes it the second fastest growing region in the world. This growth is not least noticeable, the report argues, considering the continent's mediocre average growth rates of 2.5% in the 1980s and 2.3% in the 1990s. The report concludes that the recent African growth trajectory presents new opportunities for African firms, who are growing faster than their peers in the rest of the world. McKinsey has similarly announced the progress and potential of African economies with their "Lions on the Move" report (2010). McKinsey's figures project Africa's GDP in 2020 to be at \$2.6 trillion, consumer spending to rise to \$1.4 trillion, and 128 million households to obtain 'discretionary income'. As a result of these projected developments, McKinsey predicts that a dynamic African business sector will play an increasingly important role on the world economic stage in the future (already 100 companies with revenue greater than \$1 billion can be identified in Africa). A 2011 report by Ernst & Young also paints a positive picture of African economic development based on interviews with 500 business leaders, who point to stronger foreign direct investment (FDI) flows, improved investors' perceptions, and in general, a positive macro-economic outlook. A 2011 study by the African Development Bank (AfDB, 2011) notes that African manufactured exports roughly doubled during the 2000s. And the United Nations Economic Commission for Africa describes the dramatic increase in FDI in Africa during the

2000s, as indicated with the fact that FDI inflows to Africa reached \$62 billion in 2009, an almost 7-fold increase in a decade (UNECA, 2012).

Complementing these macro-economic figures, several studies point to positive developments at the firm level: Firstly, it is argued that growing numbers of African firms are moving from informality to formality as a result of improved governance and market institutions (e.g. OECD, 2006). Secondly, it is argued that we are witnessing the emergence of an African entrepreneurial class who strive to develop medium- and large-scale businesses in the modern formal sector (McDade & Spring, 2005; Olomi, 2009; Bosma, Kelley and Amorós, 2010; Fick, 2002). Thirdly, the rise of 'national champions' are described by a number of studies. For instance, the Boston Consulting Group (2010) released a report on the 40 fastest growing and globalizing African companies suggesting that 'African challengers' are emerging from the 'overlooked continent', defining a new 'African capitalism' (see also African Business, 2009). Fourthly, several reports emphasize the rapid increase in the presence of foreign multinational corporations (MNCs) in the African business sector prompted by improved conditions of doing business and changing perceptions of Africa among MNC decision makers (e.g. Accenture, 2010; McKinsey, 2010) and Ernst & Young (2011).

However, one should be cautious of adopting an overly optimistic view of African enterprise development. For one, it appears that African enterprise development disproportionately is confined to industries related to resource extraction and construction/infrastructure. Moreover, while there are many examples of regions and sectors that have seen the rise of dynamic private enterprise, deep and vibrant private sector development akin to that seen in the Asian emerging markets has failed to take root (Morrisey, 2012). It is also worth asking whether the identified African champions are really expressions of improved competitiveness of African enterprises, or more are results of protectionism, favourism and state subsidies. Furthermore, it could be asked to what extent the African success stories are home-grown or the results of foreign influences such as FDI by MNCs or activities of diaspora entrepreneurs. Finally, the literature on rising African enterprises tends to focus on a few countries (typically Nigeria, Kenya, Ghana or Botswana), countries that most likely are not representative for the whole continent.

One of the major challenges when assessing the 'hype or reality' of African enterprise development, is related to defining and measuring performance. Thus, there is huge ambiguity as to what constitutes 'successful performance' for African firms (Jackson, Amaeshi and Yavuz, 2008). For one, it is not clear if success is related to profitability or whether other measures are equally relevant (e.g. movement from the informal to the formal economy; evolution from small and medium-sized enterprise (SME) to large firm; or change from national market orientation to international market orientation). Moreover, notions of success may be different depending on the industry, the size and the structure of the firm. Finally, performance indicators are generally unavailable, unreliable or hard to access in an African context. All in all, what constitutes successful performance of African firms remains a highly disputed issue and lack of reliable and comparable performance data makes any assessment of African enterprise performance inherently difficult.

III. Drivers of African enterprise development

While acknowledging the problems of measuring performance, it is not possible to ignore that there are important changes taking place in the African private sector. Hence, there is a need to understand, what explains the changes in African enterprise development and under which conditions - at least some - African enterprises succeed. The following section will examine what the received literature tells us about the factors shaping and facilitating African enterprise development. In line with the contingency approach presented above, we will make a distinction between contributions that emphasize firm external factors and contributions that emphasize firm internal factors.

External factors driving African enterprise development

There are numerous ways in which the business literature organizes the analysis of the external business environment (e.g. the PESTEL model, the CAGE model, the Three C model, or the Diamond). Hansen et al (2010) argue that institutional, market, resource and competitive factors are key dimensions on which the distinctiveness of emerging market business environments can be characterized. As this framework is designed specifically to understand the specificities of emerging markets, it is deemed useful for organizing the following review of external factors:

Institutional factors

Traditionally, the literature has painted a very bleak picture of the African business environment. In a comprehensive review of the literature, Pedersen and McCormick (1999) reported on deficiencies related to lack of supportive institutions (financial, state and social/labour); low trust and accountability; limited access to capital and sub-contracting; and rent-seeking and corrupt practices combined with low law-enforcement. The historical heritage (inefficient parastatal industry, strong foreign presence, concentrated production, informal dominance, limited capital and lending, etc.) in combination with inefficient management practices were further highlighted as detrimental to enterprise development.

More recently, several studies have pointed toward improvements in the African business environment. The McKinsey report (2010) suggests that improvements in African business performance during the 2000s are related to improvements in the political and institutional climate (not only the continent's natural resource boom), which is accompanied by an expanding labour force, urbanization, more foreign investors, and the emergence of middle-class consumers. Similarly, Ernst & Young (2011) emphasizes improvements in the African business environment as key drivers of private sector development and studies by Fafchamps (2002), Eifert, Gealb and Ramachandran (2005), Biggs and Shah (2006) and the World Bank's 'Doing Business' reports emphasize the role played by improvements of the SS African institutional context. A study of 356 Kenyan and Ghanaian entrepreneurs (Hung, Benzing & McGee, 2007) found that government support and stability were critical factors behind successful enterprise development. However, several studies caution that the apparent improvements in institutional environments are slow and riddled with setbacks. Overall, African countries remain bottom in the World Bank Doing Business Index and studies consistently point to institutional barriers as key obstacles to enterprise development (Bigsten & Söderbom, 2006).

Informal institutions tend to be just as important shapers of enterprise development in Africa as more formal ones (Pedersen & McCormick, 1999). Biggs and Shah (2006) present evidence of links between informal governance institutions and improved SME performance, through for instance increased credit supply for 'insiders' in these networks. It seems that such informal institutions, in the absence of well-developed formal institutions, can give guidance and predictability for firms and entrepreneurs (Peng, 2002; Gerritse and Moreno-Monroy, 2012). On the other hand, Eschborn (2006) underlines the massive social costs associated with informality and describes the institutional barriers to formalization.

Market factors

Market conditions (market growth, size, integration, segmentation, etc.) are central to the success of African enterprises and several studies have examined the changing African market environment. Accenture (2010) mentions positive developments relating to five key dimensions: growing consumerism (despite rampant poverty), increased demands for Africa's resources, new talent, capital inflows, and innovation.

For analytical purposes, markets in developing countries are sometimes divided into global, glocal, local and base of the pyramid (BOP) segments (Khanna & Palepu, 2010). Interestingly, especially the potentials of the African BOP segment have attracted the attention of numerous recent studies (Mahajan, 2008; London & Hart, 2004; Prahalad & Hammond, 2002). This literature examines how and in what ways business models must be modified or even reinvented to accommodate the needs of the BOP, for instance by developing relationships with non-traditional partners, co-inventing custom solutions, and building local capacity (London & Hart, 2004).

A classical challenge for enterprise development in Africa has been the lack of market integration. More recently, improving infrastructure and communication technology have greatly facilitated market integration. Thus, a study of non-farm rural enterprises in Tanzania found that in particular improved road infrastructure and rural cell phone communication was associated with employment growth (Kinda & Loening, 2010). However, many studies argue that market integration remains limited. A sample from 188 cities in SSA showed how African businesses still suffer from low market access and weak supplier integration (Elbadawi, Mengistae & Zeufack, 2006). A study of Zambian enterprises found that poor market information still significantly constrains market access in Zambia (Phillips & Bhatia-Panthaki, 2007). And other scholars emphasize that lack of backward (and forward) linkages – evils of African enterprise development already described by the development economist Alfred Hirschman in the 1950s - still characterizes large parts of the African business system (Pedersen & McCormick, 1999).

Resource factors

Historically, natural resources such as oil and minerals have been the source of much private sector development in Africa (McKinsey, 2010). However, it has been suggested that investments in natural resources, which is often foreign, have failed to create linkages and spillovers to the local economy (Morrissey, 2012). Moreover, too strong reliance on natural resources has frequently produced adverse impacts on macro-economic conditions ('Dutch disease' types of impacts). Although an increasing

diversification away from natural resources is taking place (Ernst & Young, 2011), natural resources still play an essential role in the recent African growth trajectory.

Oil and mineral resources are not the only resource attractions of Africa: A report by the OECD Centre for Development (2009) suggests that African agriculture is a sleeping giant and that it is time to promote commercial agriculture on the continent. McKinsey (2010) notes bright prospects for the African agricultural sector, especially considering the cultivation of new land, yield growth and a shift to high-value crops. And the Africa Competitiveness Report (WEF et al., 2011) argues for further emphasis on the natural environment in the development of the tourism industry.

Access to human resources is also associated with enterprise growth. Striking an optimistic tone regarding the African labour force, McKinsey (2010) points to the new generation of much better educated young Africans that may provide the foundation for the coming decades' growth trajectories. However, other studies strike a more sombre tone: A literature review by Taylor (2009) highlights severe limitations in the quality of African labour resources, especially in terms of skills and training. As a consequence, African industries are confined to low skill type of manufacturing aimed at protected home markets and have rarely succeed in penetrating export markets. This 'low skill trap', Taylor suggests, leads to high underemployment and unemployment.

Competitive factors

One of the most significant changes in the African business environment in recent decades is the change in competition. In the Africa Competitiveness Report (WEF et al., 2011), it is concluded that competition in Africa has intensified in recent years due to mainly three factors: 1) the dismantling of previous state monopolies and increased privatisation; 2) the rise of domestic entrepreneurs challenging incumbent firms; and 3) the inflow of foreign firms. The latter aspect has been discussed by several studies (see e.g. Gilroy, Gries & Naudé, 2005) and in particular the inflow of Chinese FDI has been subject to much debate. On the other hand, the arrival of Chinese MNCs place African governments in a stronger bargaining position vis-a-vis western MNCs, but on the other hand, it seriously challenges domestic enterprises that now are becoming exposed to competition from low cost Chinese firms (WEF et al., 2011).

Internal factors driving African enterprise development

The studies reviewed above suggest that external conditions for doing business in Africa have pervasive influence on enterprise development. Nevertheless, beyond these external contingencies, there is another take on African enterprise development which focuses more on firm internal resources and capabilities. According to this view, every firm has a unique set of internal resources and capabilities that are fundamental in determining its strategies and eventually performance (Barney, 1991; Teece, 1998). In comparison to external contingencies, less has been written about these internal contingencies (Bigsten & Söderbom, 2011). The scarce literature on internal contingencies seems to focus on in particular four sets of resources and capabilities: entrepreneurial capabilities, capabilities associated with firm size, capabilities related to skills and education, and network capabilities.

Entrepreneurial capabilities

The entrepreneur plays a key role in the literature on African enterprise development, probably due to the fact that African economic life is dominated by small-scale firms (e.g. Fick, 2002; Spring & McDade, 1998). While state owned enterprises still have a dominant position in many African countries, major changes in African business are expected to arise from entrepreneurial firms finding their own ways (Liedholm, 2002). Given their insight knowledge of the particular institutional and competitive environment, the entrepreneurs are expected to be able to identify promising business opportunities and have innovative responses to this. Such areas of opportunities and innovative practices seem to be related to ICT and mobile phones, including mobile banking (Etzo & Collender, 2010). Other innovative businesses seem to be emerging in creative industries (Labato, 2010). It is noted that most African entrepreneurs are involved in small scale, often subsistence trade and service activities. Nevertheless, while these business owners might not be introducing radical innovations to the market, they are, like other entrepreneurs, taking risks and demonstrating persistence and creativity while trying to make a living.

The literature has identified at least four important features of African entrepreneurs. Firstly, certain psychological and behavioural traits of the entrepreneur are emphasized. A study of 87 business owners in Namibia identified traits such as ability to engage in comprehensive planning (strategy process where strategies have high goal orientation) and the degree of entrepreneurial orientation (autonomy, competitive aggressiveness, innovativeness) as key to success (Frese, Brantjes & Hoorn, 2002). Others have pointed to the distinction between 'necessity' entrepreneurs, who do business in order to survive, and 'opportunity' entrepreneurs, who innovate with ambition and a desire to continuously grow and expand (Bosma, Kelley & Amorós, 2010). In a study of entrepreneurs from Kenya and Ghana, the entrepreneur's work input and perseverance were seen as decisive for success (Hung, Benzing & McGee, 2007). Secondly, gender specificities of the African entrepreneur are emphasized. For instance, Kuada's and Rutashobya et al.'s work on African entrepreneurs (2009 and 2009) show how female entrepreneurs tend to use their social capital and cultivate their social relationships actively to compensate for the difficulties they face in accessing financing. Thirdly, there is an emerging literature focusing on young entrepreneurs showing how young Africans increasingly are expected to start their own enterprises rather than seeking formal wage work. This literature has in particular looked at the impact of social embeddedness for young entrepreneurs' motivations, aspirations and business practices (Langevang et al, 2012; Mwasalwiba et al 2012). Fourthly, there is a branch of literature focusing on the institutional determinants of African entrepreneurship (see e.g. Amine & Staub, 2009). The point here is that entrepreneurship in Africa is closely related ability to navigate institutional voids, what has been termed 'institutional entrepreneurship' (Tracey & Philips. 2011).

Capabilities related to firm size

Firm size and structure are often used as controls in empirical studies of enterprise growth. Certain capabilities associated with size (scale advantages, access to capital, privileged access to authorities, etc.) seem to play an important role in determining firm strategy and performance in Africa. A major study based on RPED data from nine SSA countries suggests that: a) large firms are more productive; b) large firms are more likely to survive; c) large firms grow larger and improve productivity faster; d) large firms

remain large (van Biesebroeck, 2005). The same study also showed how smaller enterprises have a hard time advancing in size or productivity, much due to the limited availability of credit. Another research project found that high productivity is a determining factor in the survival of larger manufacturing firms, while not necessarily in smaller firms (Söderbom, Teal & Harding, 2006). However, Bigsten and Söderbom (2006) report that it is premature to affirm a clear association between enterprise size and growth, having found both small/young firms and large/old firms particularly successful.

Skills and education

The aforementioned studies by McKinsey (2010) and Accenture (2010) underline how human resources and education/training are an increasingly important asset facilitating African enterprise development. A study of 225 micro- and small enterprises (MSEs) in Tanzania confirmed that trained microenterprise owners have higher levels of asset and sale revenues compared to owners without training (Kessy & Temu, 2010). Studying the determinants of microenterprise performance in Uganda, Okurut (2008) similarly found that returns in Ugandan microenterprises are positively and significantly influenced by education level, experience, and business assets. Judging by the amount of professionally trained managers from the Diaspora as well as increasingly higher standards of local business schools, it is argued that a new, highly educated African business class is on its way that can be an important driver of future African growth. Access to technology as well as ability to master technology has moreover been suggested as key for efficiency in African enterprises (Biggs, Shah and Srivastava, 1996).

Network capabilities

Firms' capabilities to access and take use of external resources and relations are fundamental for growth. This ability is also labelled 'relational capabilities' (Hervas-Oliver & Albors-Garrigos, 2009). In SSA, the use of networks, either local or global, is highlighted as a key capability (Fafchamps, 2002; McDade & Spring, 2005; Bigsten & Söderbom, 2011). Network capabilities are often used to circumvent deficient or absent market and institutional structures through non-market interactions. Beyond formal arrangements, informal networks and social/personal relations have distinctive advantages (and disadvantages) for African firms (Phillips & Bhatia-Panthaki, 2007; Meagher, 2010; Moore & Schmitz, 2008; Biggs & Shah, 2006). These networks are often intertwined and mutually dependent with more formal rules and relations (Abdel-Latif & Schmitz, 2010). One crucial network capability is ability to tap into clusters. Accessing clusters can contribute to increased competitive advantage through local external economies and concrete joint action projects, together increasing collective efficiency (Schmitz, 1995; McCormick, 1999). The clustering of firms is particularly useful to small-scale industries as the firms are able to pool resources and develop competencies together (while still competing) in a step-by-step manner (Oyelaran-Oyeyinka & McCormick, 2007).

Another crucial network capability is ability to foster relations to the state and authorities. Fostering state-business relations (SBR) have high political and economic significance for firm abilities to act and their subsequent performance (Leftwich, Sen & te Velde, 2008). SBRs can impact firm performance by providing a solution to state, market and co-ordination failures in three ways: a) Efficient policies and institutions; b)

Improved quality and relevance of government expenditure; c) Reduced policy uncertainty (Qureshi & te Velde, 2007).

For both formal and informal networks, trust is a key prerequisite (Humphrey & Schmitz, 1998). According to the 'political economy of trust', all economic cooperation is impacted by trust as "*mutual trust reduces transactional costs of risky social interactions*" (Vargas-Hernandez, 2008, p. 4). There is, however, a difference between the minimal trust needed to make markets work and the more extended trust required for deeper kinds of inter-firm cooperation. In fragile and competitive markets, such as certain African markets, both these types of trust tend to be weak and must be strengthened for there to be long-term success (Humphrey & Schmitz, 1998).

IV. Strategies adopted by African enterprises

In the previous, we have presented a number of studies emphasizing internal and external contingencies of African enterprise development. However, to the extent that these studies are exclusively focusing on contingencies, they tend to miss an important point. Thus, as argued by the strategic management literature (Hoskisson et al., 1998), the ways firms choose to act based on internal and external contingencies are decisive for their performance. Therefore, it is imperative to investigate and understand the strategic choices of African firms. We will in the following address the (limited) African strategy literature, based on a distinction between studies focusing on strategies in the domestic market and studies focusing on strategies in foreign markets.

Strategies focussed on domestic markets

A key feature of the business environment in developing countries is the institutional environment which is characterised by strong informality, widespread institutional voids, and rapid institutional change (Peng, 2002, 2003). In recent years, a strategy school has directed attention toward institutions and how they influence strategy (see e.g. Zu & Meyer, 2012; Peng, 2002; Wright et al, 2005; Hoskisson et al, 2000). The point is that especially in developing countries, strategic management is an inherently contextual activity, strongly shaped by institutions. Drawing on this institutional perspective on strategy, several studies emphasize how African companies manage to develop coping strategies in the face of institutional voids. Biggs and Shah (2006), for instance, have used RPED data to analyse how SMEs in SSA get around formal institutional voids by creating private governance systems in the form of long-term business relationships and tight, ethnically based, business networks. These, governance systems play an active role in determining SME's growth and performance in the SSA region through facilitating credit supply, exchanging information and supporting transactions. Esuha and Fletcher (2002) examined the strategies firms use to deal with the institutional challenges of Africa, namely: 'choosing markets carefully', 'keeping clean', developing a 'family culture' and maintaining 'low visibility'. The OECD (2006) and ILO (2009) have studied strategies for managing the important transition from informality to formality, underlining how, considering the same structural voids, some firms are able to develop survival strategies and sometimes even thrive, while others are not.

Several authors observe how African strategy is poised between traditional network and kinship based strategies and modern, western style strategies based on formal market oriented modes of exchange. Although it appears that many African enterprises are adopting more market-oriented strategies (Hallberg, 2000), there is also strong evidence to suggest that traditional network based strategies remain important. Indeed, there seems to be two views of African firm strategy evident in the literature. The first view holds that African enterprises follow 'normal' trajectories and evolve into Western style enterprises. This view was dominant in the 80s and 90s, when institutions like the World Bank and the International Monetary Fund suggested policies and reforms that had worked in the West. However, the second view held that that direct transportation of strategies from one continent to the next would not yield the expected results. Blunt and Jones (1997), for instance, underlined the dys-functionality of Western views on leadership when applied uncritically in developing contexts. The authors noted a highly ethnocentric Western thinking around issues of strategy, management and organization as well as a mounting reluctance of Africans to conform to these ideals. Thus, a more contextual approach, taking culture into account, emerged as a result. In line with this approach, Kuada (2010) suggests African management and strategy requires a distinct conceptual model and research agenda. A key difference between African business systems and Western ones, Kuada argues, is the importance of informality in exchanges, institutions, and networks.

Internationalization strategies

Strategies to enhance participation in the global economy are a fundamental source of improved performance for African firms (Bigsten et al., 2004). While firm internationalization has received increasing attention, precisely how African firms enter foreign markets and the strategies they use to benefit from these relations is underexplored (Rutashobya & Jaensson, 2004). To get an overview of the limited literature on internationalization of African enterprises, a distinction between direct internationalization strategies (export and FDI) and indirect internationalization strategies (internationalization through linkages to foreign firms present in Africa) is useful:

Craig and Douglass (1997), in a review of direct and indirect internationalization strategies of African firms, identify six generic strategies: 1. Low cost commodity export strategy; 2. Manufacture for private label (license and franchises); 3. Component manufacture (outsourcing relation in global value chains); 4. Low cost market leader; 5. 1st generation market specialist; 6. Specialized niche strategy. Strategy 2 and 3 are indirect internationalization strategies, while the remaining strategies are direct. The problem for African firms, according to these authors, is that they frequently end up being relegated to low end export markets or to tertiary roles in global value chains.

In terms of direct internationalization strategies, SSA firms are typically exporters of commodities, and FDI is exceptionally rare, apart from in regional markets. Several authors (see e.g. Craig & Douglass, 1997; Kuada & Sørensen, 1999; Esterhuizen & Van Rooyen, 2006) describe the challenges faced by African firms wishing to internationalize: They lack knowledge of consumer needs and preferences; they have problems of getting market access due to formal and informal trade barriers (especially to western markets), and they lack control over distribution and sales. African firms fail to overcome these market entry barriers because they lack resources and capabilities such as experience, capital, technology and effectiveness. In a

survey of African exporting agricultural firms, Esterhuizen and Van Rooyen, 2006 further found that low competition in the home market reduced African firms' need and desire to perform (Esterhuizen & Van Rooyen, 2006).

Kuada and Sørensen, using empirical evidence from Ghana, argue that to succeed with direct internationalization ('downstream internationalization') African firms need to embark on indirect internationalization by fostering linkages to foreign input suppliers ('upstream internationalisation'). Other studies confirm how linkages to foreign firms in global value chains significantly influence the chances of internationalization (e.g. Barnes & Morris 2008; Fold & Larsen, 2008). Indeed, several authors suggest that a linkage strategy may be a viable internationalization strategy for African firms (Ndikumana & Verick, 2008). By linking up to foreign firms as suppliers, service providers, franchise holders, licence holders or as joint venture partners, local firms can obtain a number of advantages: They can access technology and capital, improve their skills, and gain indirect access to export markets via the linkage partners' global marketing networks. Eventually, they may upgrade their activities, moving into higher value added functions and activities (Ernst & Young, 2011). However, where there is a large technology gap between foreign and local firms, linkages are less likely to occur (Nunnenkamp, 2004). Unfortunately, the main inflow of FDI in Africa is in natural resources, which holds less potential for linkage formation due to a large technology gap (Akinlo, 2004). There is also debate about the linkages practices of MNCs originating from different countries; Chinese investors are sometimes alleged to bring with them their entire supply chain when they invest in Africa (Gu, 2009; Kaplinsky et al, 2009). Moreover, spill overs and learning from the presence of foreign firms require that there is a local industry to absorb the potential benefits, either through collaboration with the foreign firms or through demonstration and competition effects (Blomström & Kokko, 2000). Unfortunately, the absorptive capacity generally is very low in African industries (Akinlo, 2004).

V. Towards a research agenda on African enterprise development

Despite substantial increases in the number of emerging economy studies in the top business journals, African studies are largely absent: of the 260 articles reviewed by Zu and Meyer (2012), 122 focused on China, 68 on other Asian economies, 37 on Central and Eastern Europe, 13 on Latin America and only 3 focused on the Middle East and Africa. Moreover, serious voids and lacunas exist in the existing business literature on African enterprises. Firstly, considering the 'contingency' factors in Figure 1, the review suggested that the majority of studies focusses on external drivers of strategy and performance (institutions, markets, resources, competition), while fewer address internal drivers, such as entrepreneurship, size, skills and network capabilities. We argue that future research needs to develop a better understanding of the internal resource configurations and capability mixes that create African enterprise development. Secondly, considering the 'strategy' dimension, the review suggested that strategy is conceptually under-developed and empirically under-researched in an African context. Hence we need a better understanding which strategies are successful, and when, as well as why firms operating within similar contingencies adopt widely different strategies and perform in different ways. In this regard there is a pertinent need to direct attention toward the role played by managers in integrating resources and

devising strategy, a perspective that due to the logic of the contingency-strategy-performance framework of this paper may have received less than deserved attention. Finally, the review suggested that more work is needed on the 'performance' aspect of African enterprise development. In particular, it is essential to make a distinction between survival, growth and profitability when assessing performance and to clarify what is meant with 'successful' enterprises.

In addition to better understanding the contingencies, strategies and performances of African enterprises, our review suggests that more attention should be devoted to the relationship and interaction between contingency, strategy and performance factors. As argued by Zu and Meyer (2012), the dynamic nature of contingencies in Asian emerging markets provides pivotal challenges for strategy research. We will argue that the same is true for Africa and that more research should be devoted the relationship between Africa specificities and strategy. In what follows, we will present two frameworks that can help us grasp the relationship between the Africa specificities and strategy. The first concerns the diversity of African enterprises where we argue that – as a minimum - a distinction between incumbent, entrepreneurial and foreign firms should be made. The second concerns the diversity of African contexts, where we argue that - as a minimum – a distinction between African countries depending on development stage should be made.

Accounting for the diversity of African enterprises

There is no such thing as "an African enterprise. For one, there are large variations between indigenous and non-indigenous entrepreneurs and firms (see e.g. Ramachandran & Shah, 1999) or between firms with different ethnic orientation, for instance between Kenyan African, Kenyan Asian and Kenyan British firms (Jackson, Amaeshi & Yavuz, 2008). Beyond cultural diversity, it is possible (and necessary) to distinguish between incumbents, entrepreneurial firms, or state owned enterprises, etc. Moreover, firms differ in their strategies and performances depending on age, location or sector. Thus, conceptualizing the diversity of African firms is a complex task. However, untangling the diversity across firms within SSA countries is a vital part of making sense of the factors that shape firm strategy and performance. Figure 2 provides one take on the relationship between firm characteristics and strategy, here based on a distinction between incumbents, entrepreneurial and foreign firms.

Figure 2: Accounting for the diversity of African firms

	Incumbents	Entrepreneurial firms	Foreign firms
Resource configurations	<ul style="list-style-type: none"> • Management politically connected • Bureaucratic organization • Strong path dependence • Often obsolete technology and a large workforce • Frequently a diversified portfolio of activities 	<ul style="list-style-type: none"> • Commercial management mind-set • Merit based reward system • Severe resource constraints e.g. in terms of technology and capital 	<ul style="list-style-type: none"> • Partly or wholly controlled and managed from abroad • Merit based reward system • Often advanced management practice • Part of global strategy and organization • Global arbitrage advantages
Main strategic challenges	<ul style="list-style-type: none"> • Drying out of public funds • Removal of protective barriers against competition from below (SMEs) and from the outside (MNCs) 	<ul style="list-style-type: none"> • Accessing finance and other resources • Dealing with government red tape and corruption 	<ul style="list-style-type: none"> • Liability of foreignness: Lack of contacts and relations to local context • Political and economic risks related to cross border activities
Firm's strategic response	<ul style="list-style-type: none"> • Either move toward more commercial strategies through focusing, upgrading and internationalization <i>or</i> • pursue political and economic shelter strategies 	<ul style="list-style-type: none"> • Challenge incumbents • Move into/ create new markets • Adopt network and cluster based strategies • Acquire knowledge and technology • Foster foreign alliances to upgrade 	<ul style="list-style-type: none"> • Challenge incumbents • Fill voids in markets/ build new markets • Form local linkages • Seek first mover advantages
Examples	<ul style="list-style-type: none"> • Typically SOEs and/ or hitherto protected monopolies 	<ul style="list-style-type: none"> • Typically SMEs 	<ul style="list-style-type: none"> • Typically MNC subsidiaries

Due to differences in size, mind-set and political affiliations between local incumbents, entrepreneurial firms and foreign firms, the strategic challenges of these firms face vary: Incumbents are poised between restructuring strategies aimed at modernizing/ focusing/ internationalizing activities, and shelter strategies aimed at resisting change and raising entry barriers. In contrast, entrepreneurial firms are focused on finding niches and opportunities in an opening economy. These firms will often have fewer contacts to the administrative and political system and will have to deal with huge financial, organizational and technological resource constraints on top of the bureaucratic obstacles. Their success hinges on the drive and vision of their owners and managers, and typically they differentiate themselves from incumbents by having a western style approach to management and organization. Finally, we have the foreign firms. Their strategic challenge is to find ways through which they can overcome the 'liability of foreignness' related to their lack of local market knowledge and contacts. This can be done, for instance by forming strategic alliances such as joint ventures with local firms. Moreover, they need to exploit the obvious advantages they have in terms of products, scale, technology, knowledge and global arbitrage to capture existing markets and develop new.

Accounting for the diversity of African countries

Another important aspect concerns the relationship between the nature of external business environments and strategy. There are many ways in which we can organize our thinking about how the business environment interacts with firm strategy in Africa. Here we will, based on Dunning and Narula (1996), distinguish between three categories of developing countries namely 'Stage 1' countries (underdeveloped/post conflict), 'Stage 2' countries (infant market development, stable macroeconomic conditions, improving institutions) and 'Stage 3' countries (countries approaching economic 'take off' with rapidly improving infrastructures, emergence of competent local supplier industries, and increasingly efficient market support institutions). Figure 3 depicts the possible relationship between country endowments and strategy: Firms in Stage 1 countries have to perform in an external context of few locational advantages, extremely small domestic markets, few other local businesses to foster linkages

Figure 3: Accounting for the heterogeneity of African countries

	Stage 1	Stage 2	Stage 3
Business environment	<ul style="list-style-type: none"> Underdeveloped (prevalence of poverty, lack of purchasing power, low market integration) Weak or non-existent formal market support institutions Often post conflict environments 	<ul style="list-style-type: none"> Fragile but increasingly stable market support institutions Emerging domestic demand Undifferentiated comparative advantages (natural resources, cheap labour) 	<ul style="list-style-type: none"> Relatively stable institutions and macroeconomic environment Improved micro economic conditions Strong demand in certain segments Increasingly differentiated comparative advantages
Main strategic challenges for local firms	<ul style="list-style-type: none"> Extreme economic and political risks Very weak or non-existent infrastructures Non-functioning consumer and factor markets 	<ul style="list-style-type: none"> Barriers to entering the formal economy Weak market integration, deficient infrastructures and red tape and corruption Mainly domestic barriers to internationalization 	<ul style="list-style-type: none"> Rapidly growing markets and fast development of consumer demand Growing exposure to competition in local and international markets
Firm strategic response	<ul style="list-style-type: none"> Stay informal and/or stay invisible Focus on regions and market segments with manageable risks 	<ul style="list-style-type: none"> Opportunistic catering to local market demand Actively seeking to build value chains and markets Coping strategies to deal with institutional voids, e.g. diversification and network strategies 	<ul style="list-style-type: none"> Capture growing domestic markets through up-scaling and focus strategies Upgrade through international linkages Internationalize toward regional markets Integration into global value chains
Examples	<ul style="list-style-type: none"> Congo, Zimbabwe, Mali, Sudan, Liberia, Sierra Leone 	<ul style="list-style-type: none"> Uganda, Tanzania, Zambia, Mozambique 	<ul style="list-style-type: none"> Ghana, Nigeria, Kenya, Botswana

with, and limited or mainly disruptive government presence (Dunning & Narula, 1996). This evidently affects firm strategies and performance in the sense that firms have to develop coping strategies in order to survive within the difficult environment. A main coping strategy will be about containment of the huge political and economic risks and in general, stay 'invisible' in the informal economy. In Stage 2 countries, there will be growth in domestic markets due to increases in locational and organizational advantages and government-induced push factors. Considering these new opportunities, firms will seek to exploit them by moving into formality, cater for the emerging local markets and seek to build new markets. Often, firms at this stage will evolve in an opportunistic manner, diversifying into new business as opportunities arise. A main role for local firms at this stage will be to substitute imports with local produce, and often, this import

substitution strategy will be aided by government imposed import tariffs. In Stage 3 countries, local demand will be booming, giving rise to strong local private sector aimed at catering to increasingly sophisticated and cash rich local demand. As business environments improve with better infrastructures and institutions and with the emergence of more competent local supply industries, more integrated strategies will be possible where firms rely on backward and forward linkages both to the domestic and international economy. At this stage firms will move from predominantly import-substituting activities to efficiency-oriented activities aimed at regional markets first and then global exports.

V. Conclusion

Research on African enterprise development is scarce. Despite the recent media enthusiasm over African firm success, researchers are only beginning to understand enterprise development in these countries. New lenses are needed to understand and explain the rising African “lions”, which despite often challenging environments, succeed in growing their businesses. In order to get an overview of the literature, we proposed a framework which directs attention toward three key perspectives on African enterprise development: 1. Perspectives on internal and external contingency factors; 2. Perspectives on firm strategies; and 3. Perspectives on firm performance. This framework helped us organize the literature and identify lacunas and voids that need to be filled. Specifically, we advocated a contingency approach that *inter alia*, takes into account the diversity of African firms as well as the diversity of the business environments in which they are operating. Focusing on the specificities and heterogeneities of African firms and countries, may inspire future research on African enterprise development and help us escape sweeping generalizations regarding African enterprise development.

The tide is starting to turn and a new and diverse generation of African firms is emerging, gaining ground in local and global markets. It is high time that research gears up to enhance our understanding of this phenomenon by developing better conceptualizations of firm level factors behind African enterprise growth and by massively upgrading the effort to provide empirical data on African enterprises.

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