

# “Strategic Management in African Firms: A Local Perspective”

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## **Strategic Management in African firms: a Local Perspective**

Alidou Ouedraogo\*

### **Abstract**

This paper favours a local approach to the strategic management of firms in Africa. Globalization and internationalization of world markets have upset the economic dynamics of African countries by allowing the private sector to become the predominant player in wealth creation. Business restructuring and privatization programs constitute an integral part of this new dynamic. Today, new management practices, new concepts and new strategic management tools are the predominant factors in determining how well African firms perform. As a result, the question arises as to whether the concepts, theories and classical methods of management are applicable to the background of these countries. By comparing the three most popular theoretical perspectives used in the field of strategy (institutional perspective, transactional costs perspective and resources based perspective) to the African context (based on four cases studies), we come to the conclusion that a local approach must be integrated to these three perspectives in order for African companies to fully succeed.

**Key words:** applicability, local approach, African firms, field of strategy, performance.

**JEL classification:** M14.

### **Introduction**

The field of management strategy is a complex area all sciences and theories abound. It is therefore, even for researchers and practitioners, a major challenge to gain an adequate knowledge of the field, given the wealth of information and knowledge available (Hafsi, 1997; Mintzberg, Ahlstrand, Lampel, 1999). Confronted by this fact, many authors have tried to determine common measures between the different theories. Martinet (1996) proposed a framework that integrates five fundamental logics: teleology (perception of trajectories, positions, decisions to be made), economical (study of economic determinism), sociological (process of creating strategy as perceived by the actors), technological (resources, expertise, know-how, engineering heritage, learning) and cognitive (strategy perceived as *mise-en-scène* with substrate representations of acting out). For Martinet, the strategic intelligence of a situation calls for the intervention, at various levels, of the five logics and a researcher must be aware that strategic research must ultimately be useful during the decision making process. More than ever, attention must be paid to what happens in the field. Hafsi (1997) perceives the field of strategy as a walking stick, a type of support mechanism in a complex world. For him, researchers and practitioners in the field of strategy have no choice but to use imperfect tools, heuristics that permit acceptable and temporary understandings. As does Martinet, Hafsi underlines that action – taking into account what happens in the field – constitutes an excellent laboratory for understanding what practitioners do daily. By suggesting that researchers can learn a lot from observing practitioners in the field, these authors argue that action should be at the core of strategy dynamics. This article subscribes to this perspective and will attempt to explain management strategy practices within the context of African firms. The first part of the research, based on case studies, examines the theories by confronting the three most popular theoretical perspectives used in the field of strategy (institutional perspective, transaction costs perspective and resources based perspective) to the realities of African firms. In the second half of the paper, we submit the idea that local perspectives must be integrated to these theoretical perspectives given the level of difficulties during implementation and the maladjustment of the theories to local cultural values. The conclusion reminds us how valuable a walking stick can be in orienting strategic action.

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## **The field of strategy in African firms**

Strategy, as popularized by authors such as Drucker (1954), Chandler (1962), Ansoff (1965) and Andrews (1971), is a military concept applied to the business world. Normally, strategy is tied to the notion of performance, the degree to which objectives are attained in an organization. This wide definition, deliberately so, incorporates both efficiency and effectiveness. In strategy research, researchers favour three theoretical perspectives. We shall examine each of these within the context of African enterprise.

### *Transactional cost perspective*

For Coase (1937), business internalization is a result of market defects. Accordingly, when the degree of market defects rises in a market with pure and solid competition, organizational methods should become more fully integrated, given that complete internalization is the extreme pole of the integration process. Building on Coase's ideas (Nobel Economy Prize, 1991), Williamson (1975, 1985) attempts to define a transactional theory and a new institutional economy. However, this theory only takes into account business/market duality; there are no references to the different types of intermediate organizations such as quasi-integration or quasi-internalization. Richardson (1972) was one of the first economists to note a transaction cost deficiency and to suggest an explanatory framework related to the creation of intermediate organizational forms. In this manner, cooperative agreement, located in the spectrum between the market and complete internalization, applies when the two organizational modes (market and business) are inefficient mainly in regards to the ratio transaction cost/monitoring cost. When this happens, Williamson (1975) states that businesses must favour solutions that minimize the amounts related to production and transaction costs. Generally, these costs vary in the opposite direction (Coase, 1992). In principle, when market transactions occur, there is a corresponding reduction in production costs because of economies of scale (due to having more clients); however, on the market, transaction costs have a tendency to increase because of opportunism and the limited rationale of individuals (Simon, 1945). Internalizing transactions allows a business to avoid transaction costs that translate into reduced organizational costs. However, production costs are in principle steeper because there is only one client: the business (making economies of scale impossible). One must then take into account the total production and transactional costs and proceed to a comparative analysis to arrive at an optimal decision (Coriat and Weinstein, 1995). Clearly, that signifies that it is perfectly rational to produce a component internally even though its production cost is higher than an outside supplier's.

However, the many types of costs related to comparative organizational modes are often underestimated (Robins, 1987). For example, a study by Walker and Weber (1984) comparing the difference between buying and producing components for an American manufacturer showed that transactional costs have a relatively low influence compared to production costs of both possibilities. Therefore, even if the transactional cost theory remains pertinent, the fact remains that it is limited. The first limit is that it is virtually impossible to adequately evaluate and quantify precise transaction costs. Manufacturers have difficulties rationally evaluating production costs, let alone transaction costs. This lack of quantification results in authors basing their suppositions in a random fashion because of environmental uncertainties (Thompson, 1967).

The second limit of the transactional costs theory lies in its economic determinism (Perrow, 1986). In fact, this theory contends that businesses decisions are based solely on a particular economic setting and that cost minimizing is the sole objective. It would therefore seem that once a situation is known and analysed, an optimal solution would naturally appear. Such a doctrine excludes that management and companies would need to adopt any type of real strategy (Madhok, 1996). In reality, business leaders are not exclusively looking for ways of maximizing production and transaction costs. Some, for example, want to insure their business remains competitive and survives in the long term. They are therefore creative in their endeavours and are not unduly guided by daily conditions the environment provides at any specific time (Pasquero, 1989; Madhok, 1996).

The circumstances under which African companies evolve are very different from those described above: in Africa, the most appropriate business structure is the market. Dealing with market forces, rather than internalization or cooperation, allows businesses to reduce their transaction costs mainly because weak market rules encourage “favouritism”: in contrast, organizational costs related to internalization tend to increase (Gauthier, 1995). That’s what happened, for example, in 1999, to an important Burkinabe firm: management gave away products worth almost US \$228 000 at a time when its financial situation was getting steadily worse. By doing this, management hoped to obtain better access to local authorities and thus reduce their transactional costs. But practices such as these, over and above the fact that they weaken a company’s financial picture, also affect personnel who lose motivation and end up working less. Invariably, such situations increase organizational costs and consequently, reduce competitiveness between local businesses.

Incidentally, research done by Steel and Webster (1991) and Kessy (1998) demonstrates that African business managers do not perceive the reduction of transaction costs as a major issue. Management views transactions not as costs but as advantages because they play a role deemed to be both economical and social. For African business managers, transactions are a part of complex organizational structures. Increasing transactions becomes a means of dealing with an unstable environment and reducing opportunistic conduct, while at the same time developing relationships based on confidence rather than on contracts.

*“A manager with l’Union des Assurances du Burkina (UAB) (Union of Insurers of Burkina) explains that everyday, his work consists of interacting with friends. Therefore, confidence is a major factor. That can only be achieved through long-term relationships. In our company, all my business partners were chosen first and foremost because they were my friends. We developed relationships outside the professional circle and then became business partners. Knowing one’s partners outside the professional structure allows us to see the human relationships involved and demonstrates that what’s most important in life are our fellow citizens rather than business and profit. However, even after having taken these precautions, we are sometimes disappointed by certain partners. These failures fall within our social responsibilities: they’re just part of life.*

These examples demonstrate that in order for the proposals in the transactional cost perspective to be effective, the operational environment of companies must be considered. We have seen that African businesses fall within an economical rationale that is very different than that described by the transactional cost perspective. What about the resources based perspective?

#### ***Resources based perspective***

The paradigm of classical economy holds that a company’s capacity to realize a rate of profit superior to its cost of capital is dependent on two factors: the company’s appeal in its specific market and the establishment of a competitive advantage over its competitors (Porter, 1980; Porter and Millar, 1985). Therefore, the competitive advantage stems mainly from the company’s positioning within a specific industry. However, it is assumed that all firms have free access to resources, which proposition the resources based perspective puts to the test (Barney, 1991). Resources and competencies are categorized in three types of hard and soft assets that are linked almost permanently to the firm (Barney, 1991): physical resources (technology, finance, property, raw materials); human resources (training, experience, intelligence of employees) and organizational resources (formal management structure, formal and informal planning, control and coordination systems, informal relations between groups both within and outside the organization). Some resources are very important, such as procedural knowledge (savoir-faire) which can be defined as an accumulation of knowledge integrated into working routines (Nelson and Winter, 1982). Therefore, competency is a particular combination of resources and organizational procedures (Amit and Schoemaker, 1993).

*Resources and formal competency*

Resources and formal competency are well understood and can be protected through copyright: furthermore, they are integrated as assets or take on a life of their own through plans and formulas (Miller and Shamsie, 1996). According to Badaracco (1991), four conditions apply to resources and formal expertise: "First, the knowledge must be clearly articulated and reside in packages. Second, a person or group must be capable of opening the package, of understanding and grasping the knowledge. Third, the person or group must have sufficient incentives to do so, and fourth, no barriers must stop them". That's the case for firms in developing countries who rely on transfer of technology contracts to get the necessary technology for industrial production (Oman, 1984), mainly when they require turnkey plants. But Kiggundu, Jorgensen and Hafsi (1983) point out that when the required transfer technology between developed and developing countries goes beyond the technical realm into the environmental field, success can be both uncertain and problematic. When technology transfer is applied to developing countries, implementation difficulties appear (Munir, 1998). In evoking the manager's role in implementing technology transfer, Munir writes: "*First, they concentrate only on the regulative aspects of the external environment, ignoring the milieu of socio-cultural forces that affect the technology transfer process. And secondly, they usually operate at the national or industry level, thereby abstracting away from the reality faced by organizations engaged in the absorption of new technology*". In the case of the Union of Insurers of Burkina for example (see cases studies), managers had simply imported, from their European partners at *Axa Assurances*, the most advanced marketing techniques for contacting clients. To train personnel, they set up American style training sessions and compiled very precise user manuals. The sales force was comprised of young graduates or students who were looking for jobs and who had no work experience. Preliminary results were poor because the suggested approach was incompatible with local traditions, basically those regarding taboos on life insurance and confidential information required thereof. Management then revised its strategy and ultimately hired experienced commercial agents of a mature age to sell life insurance products. The social status of these employees, along with the wisdom associated with that status, enabled them to contact heads of family with which they could discuss as equals. In the same manner, the main actors in radio and television spots consisted of men of the same generation as the heads of family. In Africa, heads of family are usually men and they play a major role in deciding whether to take out life insurance. Management's decision to adapt its strategy to local reality was very successful. However, the eventual appropriation of resources and formal expertise is also linked to the strength of the legal protective system (Miller and Shamsie, 1996). Depending on the type of industry or the geographic zone, a legal protective system can be more or less capable of protecting resources and formal competency.

*Resources and tacit competency*

Badaracco (1991) points out that resources and competency based on knowledge are more or less transferable. In fact, the valuation of these assets depends not only on a company's ability to integrate new knowledge (Cohen and Levinthal, 1990), but also on its ability to create the necessary social interactions needed to create new knowledge (Kogut and Zander, 1992) and its capacity to choose, maintain and reactivate organizational knowledge (Garud and Nayyar, 1994). In order to maintain and develop these different capacities, companies must have access to sufficient human resources, both in numbers and quality. Given this postulate, it is suggested that the capacity to maintain and develop competency is directly related to the general context in which companies evolve. It is very difficult for African companies to maintain these expertises and even more difficult for them to develop the necessary competency (Kiggundu, 1989, Austin, 1990).

Therefore, the capacity to develop the inherent competency is subject to and dependent on the level of development of the companies and the countries in which they operate. For developing countries, the major challenge lies in their capacity to build and develop the vital resources and competencies. In an African context, the approach to resources and competencies should be adapted to the requirements of the firms. In fact, these countries lack not only the necessary physi-

cal resources but also the required human and organizational resources (Delalande, 1989; Gauthier, 1995; and Kessy, 1998). Accordingly, strategic competency that normally results from a particular and subtle combination – as defined by the resources and competencies approach – is difficult to create for these companies. In the management structure of African companies, not only are the formal resources and competencies insufficient but, also and more importantly, the *tacit* resources and competencies are insufficient. A few years ago, wanting to implement the suggestions of the Burkinabe Association for Management and Quality Circles, the senior management of a telecommunications carrier created a quality circle (see cases studies). Preliminary results were encouraging. Employees were interested in the initiative and participated readily. They would meet regularly to discuss working arrangements and possible improvements. Reports were written and submitted to management. When the quality circle first started, management publicly congratulated employees and encouraged them in their efforts. Productivity levels increased and managers were happy at having found this new tool that helped reduce union activity. However, suggestions brought forth by quality circle members were never implemented. Members had suggested, for example, that professional development be offered to all personnel in an effort to bolster employee efforts and increase productivity. But management never followed up on the suggestion, sometimes citing reasons of employee availability, sometimes budgetary reasons. Eventually, participation levels and productivity dropped and quality circle suggestions became more and more controversial. Management therefore decided the quality circle was infiltrated by union members and abolished it. The improved productivity levels became a thing of the past and the company was back to square one. This example illustrates the difficulties of creating tacit resources and competencies in an African firm. Management must work diligently at the task to insure that all personnel (both employees and management) remain involved: this, in itself, is a costly project. In a company, building competency requires both flexibility and the capacity to adjust: these qualities are rarely found in African companies because the “bottom-up” does not exist on a daily basis (Potholm, 1981; Bourgoin, 1984; Delalande, 1989; Austin, 1990). Also, research by Hofstede (1980) illustrates that developing countries have a tendency of being more hierarchical, authoritarian, paternalistic and loyal in group relationships. We have seen that creating both formal competency and tacit competencies within the context of developing countries is not strictly a question of organizational framework. General economic, social and cultural conditions in which companies operate must necessarily be taken into consideration. Perhaps the institutional perspective fits within this logic?

#### ***Institutional perspective***

In their attempts to increase company performance, the two perspectives we’ve just discussed tend to fall within a microeconomic framework. The institutional perspective, however, suggests that satisfactory performances cannot be attained if the institutional frameworks in which companies operate aren’t taken into consideration. Institutional perspective is therefore of macroeconomic nature. However, the concept of institution contains many varied semantic meanings: among the most common attributes is the corpus of ideas, beliefs, rules, behavioural patterns, prescriptive and cognitive models. In this paper, an institution is defined as being shared knowledge with regards to influence, constraints and reproduction: this shared knowledge renders possible collective action (Scott, 2001).

The institutional approach in organizational theory was developed during the 1980’s (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). The basis of the theory is that organizations adopt structures in response to external expectations. Rather than dealing with specific uncertainty, organizations can attempt to apply a rationality that demonstrates their legitimacy within society as a whole. In this perspective, organizations that rely on “culturally approved resources” are legitimized externally by such organizations as the state, regulation agencies or professional bodies (Scott, 2001). They have easy access to markets and are in a better position to obtain resources. Their environment is more stable and their chances of survival are greater. On the other hand, organizations that don’t come to terms with problems of legitimacy are more susceptible to claims accusing them of negligence or unbusiness like behaviour. The multinational Wal-Mart, whose

social and environmental policies are contested world wide today, is a perfect example. An important mineral exploration company in Burkina Faso was confronted with the same type of problem (see cases studies). After several years of exploration that were relatively successful – and in response to strong competition (free trade in the mining sector) – the company's fiscal flexibility was reduced. In reaction, management announced a social and economic restructuring plan which included numerous employee lay-offs. Employees and unions refused to cooperate and the Labour Directorate of the Department of Labour and Social Welfare issued an injunction against the company who had not respected existing labour laws. But then, the company negotiated and obtained from local authorities that the Labour Code be revised in such a manner that management would be able to exercise more flexibility in managing employees. Having won this concession (in particular, the new Labour Code), management then pressured authorities to revise the National Investment Code. When employees and the population decried these attempts at changing social policy, the company finally closed its doors and moved on to other horizons. It had been unable to obtain legitimacy on an external level.

In their struggle to obtain legitimacy, organizations adjust to society according to a collective rationalization: this tendency to conform, known as isomorphism, is a central element of the institutional perspective (DiMaggio and Powell, 1983; Scott, 2001). As a result, institutionalized activities are durable, socially accepted, unwilling to change and their survival is not directly linked to rewards or control (Oliver, 1992). In general, research shows that institutions can be considered, at the same time, both as constraints and as factors of change (Oliver, 1992). Change is brought on by external sources and by the perceptions and interpretations of institutional logic of the players, which in turn breathes life and meaning to institutions. That is what happened in Africa when a decision was made to restructure the insurance sector which was undergoing a period of institutional instability. Some local insurance companies, with little or no credibility, could easily obtain business permits (see cases studies). Then, the authorities who were supposed to oversee the credibility of national insurance control structures would sanction their actions by improperly declaring that these companies were in excellent financial shape. The setbacks suffered by some foreign-owned firms insured in Burkina Faso, along with the fact that the unscrupulous companies could not indemnify them, set the stage for a climate of non-confidence on the part of investors and the subsequent mobilisation of local insurance companies. Such a sorry state of affairs had to be resolved: the system's credibility had to be restored or the whole region would have been plunged into economic crisis. Sub-regional authorities in West Africa reacted with two measures. They started by asking the central bank, the BCEAO, to bolster the financial markets so that investor confidence could be revived. Then, an independent body, the *Conférence Interafricaine du Marché de l'Assurance (CIMA)* (InterAfrican Conference for Insurance Markets) was set up. Its mandate was to exercise a supranational control over insurance companies. To reach this goal, CIMA stated two main objectives that all insurance companies had to adhere to: a sound financial situation certified by the CIMA and a first-rate technical partnership. These new operating rules in a very real sense "saved" the sub-regional financial system from disaster and facilitated the emergence of more credible insurance companies while eliminating unscrupulous and unsound ones. Through their actions, the local insurance companies had brought into being new institutional rules.

In Africa, companies exist in an environment where both formal (state) and informal institutions (traditional) co-exist. The presence of these two types of institutions can sometimes lead to conflict and confrontation but cohabitation can also lead to implied agreements of mutual non aggression and even deliberate cooperation between the two levels of moral authority (formal and informal). On a political level, this cohabitation translates into a certain instability and relative weaknesses of institutions (Azam; 1993, 1994). The weaknesses of these institutions impact the normal functioning of companies. The researcher Hafsi (1990) agrees and suggests that government policy is applied according to the particular interests of certain groups or individuals, in fact a partisan system. On a socio-cultural level, institutional confrontation translates into different rules and beliefs with regards to social dynamics, human nature and perception of time and space (Nicolas, 1975; Diakité, 1986; Hugon, 1993). In Africa, oral tradition is such that the written word is not the most important way of remembering things. This tends to encourage oral information retention and cre-

ates a barrier in the creation of data banks that are useful to companies. The following illustration by one of the managers of UAB is telling: *“At the beginning, when we asked Axa Assurances to cooperate in a technical partnership for life insurance, their managers asked that we produce a competitive study of that segment (within two weeks...I think!), before initial discussions could begin. I promptly asked my colleagues what type of information we had in that area. Does it surprise you that no study – let alone detailed and concise – existed? We were taken aback by the enormity of the undertaking but we nevertheless promised to produce this study as swiftly as possible, within the required time delay. [...] We went to the university, visited our competitors and also the Department of Economy and Finance (our administrative tutelage) and collected and analyzed the small amounts of data available. At our next meeting, our report was ready and we presented our findings on an overhead projector. Our Axa Assurances colleagues were duly impressed and told us it was the first time that this had happened to them in Africa. [...] Later, we understood that our resulting partnership and the respect shown towards us stemmed from this initial test. One of their colleagues also mentioned that, by doing this, his company was able to evaluate our competency and the degree to which we were committed to the project. We had been put to the test – without our even knowing it – and this test was very important to the future of our partnership”*.

As the deceased professor Jacques Wolff pointed out: *“The environment undergoes modifications very slowly and is somewhat like a type of data. In this regard, there are dominant nations who, given their levels of revenue and foreign trade, transmit to other countries the variations of their economic performances, thereby having an asymmetrical and irreversible influence on other countries, obliging them to adjust to the dominant nation’s situation”*. Furthermore, in Africa, the colonial background of most countries has left them with a host of institutions that either replace or superimpose themselves upon the traditional institutions of the countries. Unfortunately, institutional perspective ignores these elements and yet, firms cannot operate without acknowledging them. We have shown that the effectiveness of the tools and the methods suggested by the three theoretical perspectives used in strategy depends on context and that they are therefore unsuited to the realities of African enterprises. Before pursuing with the implementation of these inadequacies, we shall explain our research methodology.

## **Research methodology**

This qualitative research was undertaken in 2000 with 12 managers in four of the most important companies in Burkina Faso. Of the many qualitative data collection methods available, we opted for the semi-structured interview because it fitted well with the inductive nature of this type of research. To do this, we conceived an interview guide with questions pertaining mainly to the key dimensions of strategic analysis (environment, resources, performance). The guide was useful in collecting much data on local firm development, operations and performance. During the interviews, facts were recorded as they were transmitted but emotional content and subjective interpretations were disregarded. However, other sources of information were used in a complementary manner: general documents concerning the companies, specific documents relating to each company, reports of public interviews (newspapers and other media) and data bases. The combination of these different types of data sources provided a richer analysis and more diverse perspectives. The data collection method was simple: 1) note-taking during interviews; 2) revision of notes after the interviews; and 3) compiling of documents and other reports offered to us by the person interviewed. Each interview, which lasted approximately one hour and a half, was based on an interview guide that offered interviewers flexibility.

### ***Processing of the data***

Data processing was carried out through a three step content analysis:

- ◆ Pre-analysis: revised transcription of interviews, defining objectives and hypotheses, definition of operating rules and choice of indicators.

- ◆ Data processing: done manually because of the relatively short length of interviews and rather limited number of interviews.
- ◆ Interpretation of results: limited to performance levels of local business researched, to business environment and to resources and competencies indicated by local managers. It is important to mention that the results obtained from this qualitative research were substantiated by two university professors who specialize in the field of strategy in developing countries as well as by an independent expert (an expatriate consultant) experienced in the field of strategy in many developing countries.

#### *Cases description*

This qualitative research was undertaken within a context of privatization and structural adjustment. The four companies selected for the research were chosen precisely because they were undergoing major structural changes and were therefore living educational laboratories. After many years of state monopoly, two companies were experiencing difficulties because of strong competition in their respective sectors. The two other companies, more “traditionalist”, were facing repeated challenges from employees worried about the effects of globalization on their livelihoods.

##### *L'union des Assurances du Burkina (UAB)*

In 1994, the insurance market in Burkina was rocked by the creation of a third insurance group in the country, l'Union des Assurances du Burkina (Union of Insurers of Burkina). The company, managed by young and dynamic employees who had studied in European schools, innovated by introducing European marketing techniques to the life insurance sector in Burkina. However, they adapted these techniques to their local area. Their arrival on the market was not particularly welcomed by certain institutions, unhappy to see a new company upset an otherwise calm market. When the new company applied for the necessary operating permits, the administrative body responsible for delivering them delayed, citing problems such as financial guarantees and the firm's viability. Finally, after much dickering, the UAB, the third insurance group, received the authorization to proceed, amid the general indifference of the population. In this case, management's stubbornness in pursuing its goal led to a redefinition of the rules that governed the insurance sector.

##### *L'office national des télécommunications (ONATEL)*

ONATEL (National Office of Telecommunication) was created on November 2<sup>nd</sup> 1994 with an injection of capital of US \$23 186 600. ONATEL's goal is to provide good quality telecommunication to as many people as possible at the best possible price. The firm has a workforce of 1,246 agents and creates almost 15,000 jobs through the management of 7,175 telecentres and cybercafés. The company pays approximately US \$3 864 400 in taxes to the state. ONATEL offers universal access by subsidizing service to unprofitable remote areas, thus ensuring they remain connected to the world. However, privatization being a worldwide phenomenon, Burkina Faso was not exempt from the trend. In December 1998, partial privatization of ONATEL began. Privatization goals, as publicly stated, were to allow network and services development through private investments and to piggyback on a worldwide telecommunications operator (a strategic partner) to develop the network and adapt to the new environment. Another goal was to facilitate the integration of the Burkinabe firm within the international marketplace of telecommunications. Foreseeing that foreign investments would soon become a reality, management developed an ambitious program in management development and organizational modernization. This apparent willingness to accommodate foreign capital actually reflected management's fear of having its prerogatives and possibly even its leadership questioned.

##### *Business Oumarou Kanazoé (OK)*

This family business, which began in the 1970s, is a Burkinabe success story. Created by a local entrepreneur who specializes in construction and public works, the company rapidly rose to the top echelons of the national economy, making its owner one of the richest people in the country. This

firm is present throughout the West African sub-region. However, it has had to deal with increasing national and international competition. Management and employees are aware of the challenges the company faces and would like to implement changes but the owner-entrepreneur perceives these ideas as a loss of control and as reducing his huge powers. Moreover, he has difficulty managing within a structure of modern management techniques, which will ultimately lead to an explosive situation within the company.

*La Compagnie d'exploitation des mines d'or du Burkina (CEMOB)*

In 1991, the Burkinabe state partially privatized the mining industry by creating the CEMOB, a state company responsible for gold mining in Burkina Faso. The mining sector is heavily regulated and globalization has given more power to big companies to the detriment of certain countries. It must be noted that in West Africa, the same mining companies are responsible for mining in most of the countries of the region. These giants wield their authority by creating a competitive environment between the legislative bodies of the different countries. The CEMOB was not exception: managers blackmailed authorities and subsequently obtained revisions to investment and working codes. Of course, this point of view is not shared by employees or management.

Our empirical research has allowed us to demonstrate the limits of the three strategy theories and to suggest that local factors be integrated into the field of strategy for African businesses.

## **Discussion**

### **Towards greater local perspective in the field of strategy for African firms**

We have shown that the three strategic theoretical perspectives are inappropriate within the context of African firms. The transactional costs perspective is inadequate because, in itself, the idea of a contract is contrary to African values and philosophy. Moreover, when transactions are internalized within companies, there is an increase in organizational costs: on the other hand, by resorting to the market, these same costs tend to decrease because institutional weaknesses exist (state, justice). In the resources and competency perspective, it must be remembered that the appropriation of both resources and formal competency is problematic within the context of African firms. With regards to resources and tacit competency, it would appear that oral traditions in particular make codification and the subsequent use of collective information improbable. In the institutional perspective, we have seen that the socio-cultural environment greatly influences the way African firms are managed. Furthermore, companies are caught between formal institutions (state) and informal institutions (traditional) that interact in unpredictable ways. Firms therefore have great difficulty adapting and this, in part, explains their bad economic performances.

Difficulties can therefore be attributed, at least partly, to the fact that African companies are not able to deal with the obstacles in their path. It is the business leader's responsibility to recognize the "African distinctiveness" in order to give an impetus to his firm. Therefore, we suggest that in the field of strategy as applied to African firms, a local approach be favoured that takes into account certain cultural values of African firms. This local type of management could become a reality with the integration of two different ideas: a logic of solidarity and a logic of "palabre"<sup>1</sup>.

#### ***Introducing a logic of solidarity***

The community spirit inherent to family relationships in Africa conflicts with individualism and profit-seeking which are the basic principles of the transactional costs perspective. A salaried African employee faces "community pressures" and, in order to acquiesce to numerous demands, he must often contract debts. But, even then, an employee wouldn't think of increasing productivity (Mutabazi, 2000). Because of the pressures faced by African employees – pressures that also un-

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<sup>1</sup> In Africa, the "palabre" is a gathering under a tree located at the centre of a village around which many important community activities, decisions, events and rituals take place.

dermine a firm's productivity – business leaders must rely on a sense of community and solidarity to create a “team spirit”. For example, in the telecommunication company in Burkina Faso (ONATEL), management introduced two measures, a solidarity fund and a structure that resembles a council of wise men. The solidarity fund helps employees during good times and bad times. All employees can rely on this fund whenever needed, whether the need be religious in nature or related to different customs. Increasingly, when employees have difficulties paying for school supplies, financial aid is offered to them. As for the council of wise men, this informal structure hears employee complaints and grievances. In Ivory Coast, Zadi Kessy, who manages two important companies involved in the distribution of water and electricity, created five social funds in his two companies to help “encourage” employees to become more productive:

- ◆ A mutual fund that invites workers to own a part of the business capital. Contributions are voluntary and all the employees have participated. Employee shares are only remitted upon the definitive departure of that person. Through this fund, workers are collective owners of the enterprise;
- ◆ A solidarity fund to which both the company and employees contribute on a monthly basis based on specific categories. Fund amounts are freely given out to help workers, whether they are celebrating happy events or enduring hardships (death, marriage, birth, etc.);
- ◆ A savings and loan voluntary fund that encourages workers to save for at least four months before obtaining a loan for twice the amount saved. Reimbursement payments are interest-free and structured according to each worker's capacity;
- ◆ A housing savings fund which allows workers who want to either build or buy a house to save for at least three years, thus accumulating some personal assets that are then used to obtain credit with the authorized housing bank that the company has signed an agreement with;
- ◆ A health AIDS solidarity fund to which all employees and the company contribute. Accumulated resources are used to pay for treatments required for employees needing anti-retrovirals and triple therapy as well as any other types of treatment certified by the World Health Organization.

Together, these solidarity initiatives have helped create a healthy social climate in the firms, have encouraged employees to participate more fully and have also increased productivity for these companies. Employees tend to think of the firm as a “second family” and the production of income as a “collective” effort. These initiatives are based on well-known African traditions such as contribution systems that encourage individuals who are well off to help less well-off individuals or the rotating savings and credit associations (ROSCA's) that still exist in most African nations. D'Iribarne (2003) takes the same approach in his research of four companies in four different developing countries (Mexico, Morocco, Cameroon and Argentina). He notes their surprising success in areas considered to be modern and industrial and which, initially, lagged behind in a country's particular environment. The application of classical models of management within traditional firms in developing countries – inappropriate to local cultural environments – has led to authoritative practices. And yet, in the companies researched, cooperation exists and management has performed adequately. These companies have not simply applied “universal” methods of management but have basically adapted the principles of management to their society, whether the context be Catholic, Islamic, Latin American or African.

#### ***Introducing the idea of the “palabre”***

These practices, based on a logic of solidarity, contrast with the Occidental approach in which, inversely, personal and professional relationships are distinct and where behaviour is more closely regulated by concepts such as performance, an obligation to respect hierarchical order and contract stipulations. If the idea of the “palabre” was applied to the field of strategy, African firms could be innovative in the resolution conflicts and communication fields.

Dialogue within a firm structure can be explained in the context of the African tradition of the “palabre” (Kessy, 1998). The “palabre” is a type of informal forum – with a hierarchy however – in which all community problems can be discussed openly and freely. The wise men of the community listen attentively, discuss and analyse problems from all angles and make decisions that ultimately respect the social cohesion of the group (Bourgoin, 1984; Kessy, 1998).

The example of the industrial firm in Burkina Faso who created a council of wise men is pertinent. Any questions or suggestions can be brought before the council and during each meeting of management, the most pertinent or urgent questions are on the agenda. Management accepts to deal with questions as quickly as possible. All important and difficult decisions are also brought to the attention of the council. Because rules are clearly explained, are convincing and are agreed to by all, a sense of discipline ensues. In the two companies that he manages, Zadi Kessy also encourages the creation of informal structures built on the logic of the “palabre”. These structures act as a suggestion box and contribute significantly to the “collective resolution” of problems and challenges faced by Kessy’s firms. As a result, both management and workers develop strong feelings of unity, comprehensiveness, fraternal ties and solidarity. Also, the “myth of the chief”, solidly enshrined in the mores and which upsets hierarchical relationships by introducing a rigid distance between workers and management, tends to become less important because of these structures, as does the tendency to conform and the traditional respect due elders that, in Africa, often isolates the director of a company (Kessy, 1998; D’Iribarne, 2003). Informal structures that adopt the logic of the “palabre” also encourage the resolution of conflicts between employees and employer because, as already mentioned, personal relationships (family links or friendships) interfere considerably in professional relationships within African firms. The example of an important family business in Burkina Faso (see Business Omarou Kanazoé, OK) who was having problems with its employees regarding unpaid salaries and wrongful dismissals is a case in point. The problems started when the employees called upon the judiciary to hear their grievances and determine the outcome. Employees were successful on the judicial front but they couldn’t get the employer to abide by the court’s decision. The employer was of the opinion that his employees had been disrespectful to him by bringing this matter before the courts and stated that, in 30 years of career as a business leader, he had always come to terms with problems in a “family” context without having to refer to a judicial body. When the judiciary’s formal demands weren’t met, workers were forced to ask influential members of the religious and cultural communities, of the councils of wise men and other important public personalities to intervene on their behalf. Only then did the business leader accept a compromise. An out of court settlement was agreed to, under the auspices of the moral authority of these influential personalities. This example shows that business leaders do have a certain power over formal institutions but that they will bow to the rules of traditional institutions as long as factors such as authority, order, hierarchy and paternalism are respected.

### **Conclusion: what type of walking stick do African business leaders need?**

In their book *Besoin d’Afrique*, Fottorino, Guillemin and Orsenna write: *“In Bamako, in the shade of a giant African mahogany, we would see, up to a few years ago, an inventive jack-of-all-trades that United Nations experts had baptized “Doctor Mobylette”. Very early, each morning, this guy would set up shop under the mahogany tree, basically by sitting there with his tool box. The guy had figured out that if he earned US \$3.8 a day, he could easily make enough money to meet his needs and those of his family. Each day, once he had earned that salary, he would stop working so that his brother could take his place under the giant tree. After having seen him do business in this manner, some development specialists suggested to “Doctor Mobylette” that he view his work in a wider sense. Why not open a workshop in the capital city, adopt a fixed working schedule and, ultimately, become the leader of a real business? It wasn’t long before “Doctor Mobylette” had an answer to their proposal. He thanked them for the suggestion but refused to consider it, saying that such a major change in work habits would ultimately mean taking away his brother’s livelihood.”* Doctor Mobylette reacted according to his values and the social rational of his world (like our four cases studies). By suggesting such a rapid and abrupt change in his work habits, the developments experts were setting themselves up to receive a negative answer. In this paper, we have

tried to show that by looking at creative solutions, through understanding, listening and compromise, one could probably change “Doctor Mobylette’s” attitude so that, ultimately, he could work longer hours while at the same time continue providing work to his brother [Kessy (1998); Sleuwaegen and Goedhuys (2002); D’Iribarne (2003) and Ouedraogo (2004)].

Hafsi (1997) suggests that when complex situations arise, researchers are in the same boat as management. Managers are confronted with such a rich reality that they require one or two frameworks to bring order into their world: researchers, on the other hand, are confronted with so many theories and research results more or less contradictory or competitive that they must find some sort of framework, some type of walking stick to help them find their way. By suggesting that African business leaders should introduce, in management, a logic of solidarity and a type of “palabre” – their own walking stick in fact! – we demonstrate that the potential development of “Doctor Mobylette’s” business does not have to take place to his brother’s detriment.

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